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HOUSE OF COMMONS

First Session—Twenty-sixth Parliament  
1963

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STANDING COMMITTEE  
ON  
**PUBLIC ACCOUNTS**

*Chairman:* Mr. G. W. BALDWIN

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MINUTES OF PROCEEDINGS AND EVIDENCE  
No. 1

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Public Accounts, Volumes I, II and III (1962)

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THURSDAY, OCTOBER 17, 1963  
FRIDAY, NOVEMBER 8, 1963

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WITNESSES:

Mr. M. Henderson, Auditor General; and Mr. G. G. E. Steele, Assistant  
Deputy Minister of Finance, and Secretary of the Treasury Board.

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1963



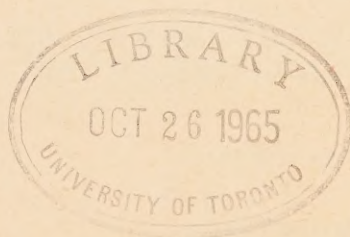
STANDING COMMITTEE ON PUBLIC ACCOUNTS

*Chairman:* Mr. G. W. Baldwin

*Vice-Chairman:* Mr. W. H. McMillan  
and Messrs.

Basford,	Harkness,	Rochon,
Beaulé,	Lessard ( <i>Saint-Henri</i> ),	Rock,
Berger,	Loiselle,	Rondeau,
Cameron ( <i>Nanaimo-</i>	McLean,	Ryan,
<i>Cowichan-The Islands</i> ),	McNulty,	Scott,
Crouse,	Muir ( <i>Lisgar</i> ),	Slogan,
Drouin,	Noble,	Smith,
Dubé,	Nowlan,	Southam,
Eudes,	O'Keefe,	Stefanson,
Fane,	Olson,	Starr,
Forbes,	Pigeon,	Tardif,
Frenette,	Pilon,	Tucker,
Gendron,	Regan,	Valade,
Gray,	Ricard,	Wahn,
Habel,	Richard,	Whelan,
Hales,	Rinfret,	Winch,
		Woolliams—50.

M. Slack,  
*Clerk of the Committee.*



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## ORDERS OF REFERENCE

HOUSE OF COMMONS,  
THURSDAY, June 27, 1963.

*Resolved*,—That the following Members do compose the Standing Committee on Public Accounts:

Messrs.		
Basford,	Harkness,	Rochon,
Beaulé,	Lambert,	Rock,
Berger,	Lessard ( <i>Saint-Henri</i> ),	Rondeau,
Cameron ( <i>Nanaimo-Cowichan-The Islands</i> ),	Loiselle,	Ryan,
Crouse,	McNulty,	Scott,
Drouin,	Muir ( <i>Lisgar</i> ),	Skoreyko,
Dubé,	Noble,	Slogan,
Eudes,	Nowlan,	Smith,
Forbes,	O'Keefe,	Southam,
Francis,	Olson,	Stefanson,
Frenette,	Pigeon,	Starr,
Gendron,	Pilon,	Tardif,
Godin,	Regan,	Tucker,
Gray,	Ricard,	Valade,
Habel,	Richard,	Wahn,
Hales,	Rinfret,	Winch,
		Woolliams—50.

(Quorum 15)

*Ordered*,—That the said Committee be empowered to examine and inquire into all such matters and things as may be referred to it by the House; and to report from time to time its observations and opinions thereon, with power to send for persons, papers and records.

WEDNESDAY, October 9, 1963.

*Ordered*,—That the names of Messrs. McMillan, Whelan, and Baldwin be substituted for those of Messrs. Francis, Godin, and Skoreyko, respectively, on the Standing Committee on Public Accounts.

FRIDAY, October 18, 1963.

*Ordered*,—That the Standing Committee on Public Accounts be empowered to print such papers and evidence as may be ordered by it, and that Standing Order 66 be suspended in relation thereto; and that the quorum of the said Committee be reduced from 15 to 10 Members, and that Standing Order 65(1)(e) be suspended in relation thereto.

TUESDAY, October 29, 1963.

*Ordered*,—That the Public Accounts, Volumes I, II, and III, and the Report of the Auditor General for the fiscal year ended March 31, 1962, laid before the House on January 21, 1963, be referred to the Standing Committee on Public Accounts.

FRIDAY, November 1, 1963.

*Ordered*,—That the name of Mr. Fane be substituted for that of Mr. Lambert on the Standing Committee on Public Accounts.

ATTEST

LÉON-J. RAYMOND,  
*The Clerk of the House.*



## REPORT TO THE HOUSE

FRIDAY, October 18, 1963.

The Standing Committee on Public Accounts has the honour to present its

### FIRST REPORT

Your Committee recommends:

1. That it be empowered to print such papers and evidence as may be ordered by the Committee and that Standing Order 66 be suspended in relation thereto;
2. That its quorum be reduced from 15 to 10 members and that Standing Order 65(1) (e) be suspended in relation thereto.

Respectfully submitted,

G. W. BALDWIN,  
*Chairman.*

*(Note,—This Report was concurred in by the House on the same day.)*



## MINUTES OF PROCEEDINGS

THURSDAY, October 17, 1963.

(1)

The Standing Committee on Public Accounts met this day at 2.00 p.m., for organization purposes.

*Members present:* Messrs. Basford, Baldwin, Berger, Crouse, Frenette, Gray, Habel, Hales, Lambert, McLean (*Charlotte*), McMillan, McNulty, Muir (*Lisgar*), O'Keefe, Pigeon, Pilon, Regan, Richard, Rinfret, Scott, Southam, Stefanson, Starr, Tucker, Whelan, Winch (26).

The Clerk attending, and having called for nominations, Mr. McMillan moved, seconded by Mr. Pilon, that Mr. Baldwin be elected Chairman of the Committee.

There being no further nominations, Mr. Baldwin was declared elected as Chairman.

Mr. Baldwin expressed his appreciation for the honour conferred on him.

On motion of Mr. Richard, seconded by Mr. Hales, Mr. McMillan was elected Vice-Chairman.

On motion of Mr. Gray, seconded by Mr. Tucker,

*Resolved*,—That a Sub-Committee on Agenda and Procedure, comprising the Chairman and six members to be designated by him, be appointed.

On motion of Mr. Scott, seconded by Mr. Southam,

*Resolved*,—That permission be sought from the House to print such papers and evidence as may be ordered by the Committee.

On motion of Mr. Hales, seconded by Mr. Rinfret,

*Resolved*,—That the Committee print 700 copies in English and 300 copies in French of its Minutes of Proceedings and Evidence.

On motion of Mr. Tucker, seconded by Mr. Regan,

*Resolved*,—That the Committee recommend to the House that its quorum be reduced from 15 to 10 members.

Following a brief discussion concerning possible future business, the Committee adjourned at 2.20 p.m. to the call of the Chair.

FRIDAY, November 8, 1963.

(2)

The Standing Committee on Public Accounts met this day at 9.05 o'clock a.m. The Chairman, Mr. G. W. Baldwin, presided.

*Members present:* Messrs. Baldwin, Fane, Forbes, Hales, Harkness, Lessard (*Saint-Henri*), Loiselle, McMillan, Muir (*Lisgar*), Olson, Ricard, Richard, Rinfret, Rochon, Stefanson, Starr, Valade, Wahn, Winch.—(19).

*In attendance:* Mr. M. Henderson, Auditor General of Canada; Mr. G. G. E. Steele, Assistant Deputy Minister of Finance and Secretary of the Treasury Board; Mr. Ian Stevenson, Assistant Auditor General, and Messrs. Douglas, Long, Laroche, Millar, Gilhooly and Stokes of the Auditor General's office.

The Clerk of the Committee read the Order of Reference.

The Chairman welcomed the members of the Committee, stressed the importance of its duties and commented on the background of the Committee.

The Chairman then announced the composition of the Subcommittee on Agenda and Procedure as follows: Messrs. Baldwin, McMillan, Regan, Gendron, Hales, Winch and Olson.

The oral report of the Subcommittee on Agenda and Procedure was then presented by the Chairman, who referred to a recommendation that the Committee sit Mondays at 10.30 o'clock a.m., and on Fridays at 9.00 o'clock a.m. After discussion, the Committee agreed to sit Mondays at 11.00 o'clock a.m., and on Fridays at 9.00 o'clock a.m.

The Chairman introduced the Auditor General of Canada, Mr. M. Henderson, who made a statement dealing with the functions of his office and commented on his Follow-Up Report on the action taken by Departments and other agencies in response to recommendations made by the Committee in 1961, including his staff recruitment problems.

Mr. Henderson then introduced Mr. Ian Stevenson, Assistant Auditor General and his senior officers as follows: Messrs. Douglas, Long, Laroche, Millar, Gilhooly and Stokes.

The Auditor General was questioned on his staff recruitment problems.

After discussion, Mr. Hales moved, seconded by Mr. Lessard (*Saint-Henri*),

*Resolved*,—That the Committee commence its Agenda with the Auditor General's office recruitment problems and that the Steering Committee arrange the order in which the witnesses appear. *Motion carried unanimously.*

On motion of Mr. Loiselle, seconded by Mr. Muir (*Lisgar*),

*Resolved*,—That the "Follow-Up Report by the Auditor General to the Standing Committee on Public Accounts on the action taken by Departments and other agencies in response to recommendations made by the Committee in 1961", dated October 30, 1963, be printed as an Appendix to the Minutes of Proceedings and Evidence of this day. (*See Appendix "A"*),

On Mr. Valade's suggestion, the Committee agreed that copies of this Committee's Report to the House dated February 5, 1963, dealing with the Auditor General's staff recruitment, be distributed to each member.

On Mr. Baldwin's suggestion, the Committee agreed to now consider the first two items of the Auditor General's "Follow-Up Report" for which witnesses were called to appear at this sitting.

Mr. Henderson made a statement on "Form of the Public Accounts."

Mr. Steele was introduced and he made a statement on "Form of the Estimates" referring to the consolidation of Votes, the necessity of making further improvements, and the recommendations of the Royal Commission on Government Organization thereon.

Mr. Henderson stated his views on "Form of the Estimates" and was questioned together with Mr. Steele.

The Committee agreed that the Chairman appoint a Subcommittee of seven members to study the Treasury Board proposal regarding form and content of the Estimates and to report back to the Main Committee.

At 10.55 o'clock a.m., the Committee adjourned until 9.00 o'clock a.m., on Friday, November 15, 1963.

M. Slack,  
*Clerk of the Committee.*





## EVIDENCE

FRIDAY, November 8, 1963.

The CHAIRMAN: Gentlemen, I now see a quorum so I call the meeting to order. First of all I shall ask the clerk to read the Order of Reference.

The CLERK OF THE COMMITTEE: Order of Reference dated Tuesday, October 29, 1963:

*Ordered*,—That the Public Accounts, Volumes I, II, and III, and the report of the Auditor General for the fiscal year ended March 31, 1962, laid before the house on January 21, 1963, be referred to the standing committee on public accounts.

The CHAIRMAN: I would like to make a few comments—a very few—before we open our deliberations. First of all I am very gratified to see this excellent attendance at the hour of 10 minutes after nine on a Friday morning. I think that this augurs well for the future of the committee. I am confident that we shall find this to be a very interesting and fruitful committee which will provide an opportunity for us to make a very considerable contribution.

As you know, this committee has been designated as one of the most important of the standing committees. That was said by Mr. Watson Sellar, the former auditor general. The present Auditor General, whom I shall introduce to you a little later, will give you some indication of the way this committee can function and make this contribution. We all realize that we have a duty to examine the expenditures of money voted by parliament in order to see if there has been compliance with the wishes of parliament. This task is one of the highest priority. And there is one unusual aspect of this committee. Despite the fact that I am an opposition member, I have been given the honour of being your chairman, and I think I can do no better than to read to you, very briefly at this time, what the then chairman of the committee said the first time it was established under this new procedure in 1958. Let me quote from the transcript of the proceedings of the first meeting as follows:

I think members of this committee will see what the Prime Minister had in mind when he set up this type of a committee.

On page 33, column 1 the Prime Minister says, in part:

—I believe that the public accounts committee should be modelled after the British committee.

Further on:

—the procedure of parliament should be modernized and brought up to date.

Then on page 34:

We are going to welcome the co-operation of the opposition in the discharge of their responsibilities in these committees—

Then the Prime Minister goes on, in regard to the public accounts committee and says:

I am now asking that this committee be made effective—

Further on he says:

I want to see that an effective committee is formed, not just a body set up for decorative purposes.

And then on page 34, column 2 he says:

If my hon. friends wish to find information on the committee system and the way in which it operates within the British parliamentary system, which after all is the basis on which we work, I ask them to read the latest volume of Beauchesne at pages 210 and 211 wherein are set forth in detail the committees which are set up in the House of Commons, the effectiveness of the system in the United Kingdom and also the nature of the United Kingdom procedure in this regard.

Further on the Prime Minister says:

The public accounts committee, as mentioned on page 212, is designed in the United Kingdom to guarantee financial regularity and exercise great influence over the departments, though it possesses no direct power other than the power to call for documents and to require witnesses to attend. Its power is indirect and lies mainly in the potential results of its report. Actually its power lies in the publicity which it is able to give to the questions it investigates and in the moral effect on the departments of its criticisms.

Our order of reference has been read to you by the clerk of the committee, Mr. Slack. I have had the pleasure to be associated with Mr. Slack in other committees and have always found him very effective, helpful, and useful.

In addition to the order of reference, it has been the practice that the committee would deal with certain comments which the Auditor General has to make in connection with past recommendations of committees, and the extent to which those recommendations have been followed up by the departments. This constitutes a very useful portion of our proceedings.

Now it happens through a series of circumstances of which you are all familiar, that last year the public accounts committee did not complete its deliberations. Consequently, as the Auditor General will no doubt tell you, his follow-up and comments will deal with the committee's report made in respect of the year 1961.

Now, at this time I want to introduce to you the Auditor General, but before doing so I think possibly I might also advise you of the names of the members of the subcommittee: they are, Dr. McMillan, Mr. Regan, Mr. Gendron, Mr. Hales, Mr. Winch and Mr. Olson, who, together with myself, have already held one meeting, at which we decided to recommend to the committee that its meetings be held on Mondays and Fridays, Monday at 10.30 a.m. and Friday at 9 o'clock. I know there are always problems in connection with the times and dates of meetings, but let me say that your committee canvassed very carefully and discovered that there are a large number of committees now sitting, and that if we took these days we would have available to us this room with its simultaneous translation system which is available to us along with the interpreter, as and when required. In the hope that the members would accept this, we made this recommendation. Now, if it is acceptable I would like to have a motion accepting the report of the steering committee as to the times of sittings.

Mr. WINCH: I so move.

Mr. HALES: I second the motion.

Mr. RINFRET: Did you say that we would sit on Monday at 9 o'clock?

The CHAIRMAN: No, on Monday at 10.30, and on Friday at 9 o'clock.

Mr. LOISELLE: Have you considered the possibility of choosing some other day? I do not mind the Friday sittings, but Monday would prove difficult.

The CHAIRMAN: There are a number of committees, eight or nine, now established, and five or six more will be established and functioning. Our



activities will be telescoped into the period between now and then, if we are to prorogue before Christmas; and we shall have problems, no matter how we look at it, but Mondays and Fridays seem to present the least problems.

Mr. HARKNESS: These will be the hours up until Christmas, and after Christmas they may be different.

Mr. HALES: Might it be fair to suggest, in considering these days, that if it were not for the fact that the proceedings are being translated into two languages we might meet some other days. If it would be more agreeable to the committee; that is, if the committee would agree to having the meetings conducted in English only, then we could meet some other days.

The CHAIRMAN: We decided to try this for size possibly between now and Christmas, to indicate how we got along.

Mr. LESSARD (*Saint-Henri*): Those of us from Montreal do not get in until 10.40 on Monday, so if we could have the meeting at 11 o'clock it would be better. Friday does not present a problem, but on Monday it would be pretty difficult for us to be here, especially those of us who come from Montreal, and I am thinking especially of Mr. Valade.

Mr. VALADE: I usually take the plane.

The CHAIRMAN: Are there any other comments?

Mr. McMILLAN: The defence committee will not be meeting here for the next two weeks. So I wonder if on Tuesday, for instance, we could meet instead of Monday, unless there are too many of our members on other committees.

The CHAIRMAN: I am advised by the clerk that there are four other committees now meeting on Tuesday morning. It is not only a question of the place, but also a question of a quorum which presents some difficulty.

Mr. VALADE: I want to speak to the objection raised by Mr. Loiselle. There are six members here from Montreal and that area, and if it were not possible to make the train connections, you might be out six members at the start of the meeting.

The CHAIRMAN: Is that the general feeling of the members?

Mr. VALADE: You have Mr. Rochon, Mr. Loiselle, Mr. Lessard, Mr. Rinfret, Mr. Ricard, and myself.

Mr. WINCH: Why not hold the meeting from 11 to one?

Mr. LOISELLE: At least 11 to one. I move that on Monday we sit from 11 to one o'clock.

Mr. VALADE: I second the motion.

The CHAIRMAN: Are there any comments on this motion which seems to be not unreasonable?

Mr. VALADE: Is it possible to hold the meeting at that time?

The CHAIRMAN: Oh yes, it is possible. Anything is possible, and quite practical. Is that satisfactory? Are you agreed that the motion as amended should be carried?

Motion, as amended, agreed to.

Now then, may I introduce to you Mr. Henderson the Auditor General of Canada who, I think, needs no introduction to any of you who are members of the committee and who have already known him before. Before calling on Mr. Henderson may I say that he is our star witness in the sense that his report to us is made to parliament by reason of the statute and by law, and as such we, as representatives of the House of Commons, accept his advice. He is not only our witness but also our star witness—I mean he and the members of his staff to a considerable extent; they advise us on matters which are charged to us for consideration.

Mr. Henderson was born in Surrey, England, on March 24, 1908 and came to Canada at an early age.

Shortly after passing his final examinations as a chartered accountant in 1929, he joined Price Waterhouse & Co. in Toronto, where he remained until 1936 when he was appointed comptroller of Hiram Walker-Gooderham and Worts Ltd. in Walkerville, Ontario.

From 1940 to 1946 he was on loan to the Canadian government at Ottawa where he served first with the Foreign Exchange Control Board and later as assistant to the chairman and comptroller of the wartime prices and trade board.

From 1946 to 1956 he was secretary-treasurer of Distillers Corporation-Seagrams Ltd. in Montreal and director of all its Canadian and overseas subsidiaries. From 1950 to 1955 he was president of the Association of Canadian Distillers.

From 1949 Mr. Henderson was active in the Canadian Chamber of Commerce as chairman of its foreign trade committee and later as chairman of its executive council (1956-57). He also served actively on the executive of the Canadian council of the International Chamber of Commerce as chairman of its commercial and monetary policy committee and its taxation committee.

Mr. Henderson was comptroller and chief financial officer of the Canadian Broadcasting Corporation from December 1957 to February 1960.

He was appointed Auditor General of Canada effective March 1, 1960.

Many of us have had knowledge of and have known him in connection with his duties. I now call upon Mr. Henderson to explain something of his duties and introduce his staff.

Mr. MAXWELL HENDERSON (*Auditor General of Canada*): Thank you very much for your kind words, Mr. Chairman. I always get a sort of old-fashioned thrill when I hear about my spiritual background, although it was some years ago. I have been in office since March 1, 1960 and I have brought before this committee thus far three reports, and at present my officers and I are engaged in the preparation of our fourth, with respect to the year ended March 31, 1963. It is a particular pleasure for me to see a number of old friends here today. We have had very successful committee meetings in the past and I look forward under your chairmanship to a continuance of a very excellent relationship.

(Text)

C'est avec un plaisir tout particulier, monsieur le président, que je souhaite la bienvenue aux membres du comité qui viennent de ma propre province. Je suis membre de l'Institut des Comptables Agréés du Québec et je considère Montréal comme mon autre chez-soi hors d'Ottawa. Ma grand'mère était française mais malgré cela je dois vous offrir mes excuses de ne pouvoir parler français aussi bien que je le voudrais. Vous conviendrez donc avec moi, j'espère, que je suis mieux de parler en anglais afin d'éviter tout malentendu sur l'exactitude des faits et des chiffres que je suis chargé de vous fournir pour les travaux du comité. C'est peut-être une autre façon de dire, monsieur le président, que la prudence est l'essentiel du courage.

The Chairman has mentioned the last report for 1961 which was tabled by this committee on July 1 of that year. This, the fifth report, 1961 was the longest report ever made by the committee and

- (1) was the result of 24 meetings;
- (2) involved 40 witnesses which included 12 deputy ministers, 5 officials from the Canada Council and 4 from Polymer Corporation;
- (3) was 20 pages long, containing 105 paragraphs, 90% of which consisted of recommendations for action.

The following excerpts from that report are worthy of note:

104. The importance of maintaining parliamentary control over financial matters is the paramount concern of this committee. It is therefore expected that its recommendations will be given close attention by the departments, Crown corporations and other agencies.

105. In accordance with the practice followed by the committee in its reports to the House for the past three years, the Auditor General is again requested to report to the committee on the action taken by the various government departments, Crown corporations and other agencies, toward implementing recommendations contained herein.

My follow-up or progress report was revised on October 30 with copies given to your secretary, in English and French, on November 6.

My officers and I are currently very busy working on my 1963 report to the House of Commons, which, as required by the Financial Administration Act, I shall be delivering to the Minister of Finance by the end of the year.

The minister will then likely table it at the same time as he will be tabling the 1963 Public Accounts of Canada.

The follow-up report—which is the first item of business on your agenda—will give you some idea of the detailed matters with which you have to deal. We have sought to explain the details and background of the points as constructively as possible.

I should now like to say a brief word about the function and role of the Auditor General.

The Auditor General is an officer of parliament.

His functions and responsibilities are outlined as part VII of the Financial Administration Act.

By law, he is entitled to free access at all convenient times to all files, documents and other records relating to the accounts of every government department, crown corporation and agency and is entitled to require and receive from members of the public service such information, reports and explanations as he may deem necessary for the proper performance of his duties.

Section 67 of the Financial Administration Act requires the Auditor General to examine in such manner as he may deem necessary the accounts relating to the consolidated revenue fund and to public property and to ascertain whether in his opinion, among other things, money has been expended for the purposes for which it was appropriated by parliament and the expenditures have been made as authorized.

Section 70 of the act requires the Auditor General to report to the House of Commons each year on the results of his examinations. Among the matters upon which he is specifically required to report in relation to expenditures is any case where any appropriation has been exceeded or was applied to a purpose or in a manner not authorized by parliament, and any case where an expenditure was not authorized or was not properly vouched or certified. In addition, he is required to report any other case that he "considers should be brought to the notice of the House of Commons".

He is authorized to station in any department any member of his staff to enable him more effectively to carry out his duties.

The estimates of the Auditor General's office currently before parliament continue to provide for a total staff strength for his office of 179 during the current 1963-64 fiscal year. This is the number which I estimated three-and-one-half years ago as the minimum needed to carry out a basic external audit program within the framework of the existing government organization. Although a larger staff than 179 is indicated today, I have not requested it yet for the simple reason that I have never been able to obtain the number of 179 authorized for my office.



Last February I pointed out to the committee that the actual working staff was then only 150 compared with 152 on the same date a year previously. Today this figure is only 161, so you can see that we are still considerably short of our approved establishment.

The civil service commission officials do seek to be as helpful as possible over this problem. However the commission's recruitment procedures, regulations and the delays involved are simply not suited to a small professional staff the size of the audit office. The office could function more efficiently in many directions if the Auditor General were allowed to recruit and manage his own staff. It would also be less costly.

The importance of these points as well as the independent nature of the office itself have been recognized by your committee in 1960, in 1961 and at its last meeting in February 1963. On each occasion your committee has recommended that, as an officer of parliament, the Auditor General should be given the right to recruit and manage his own staff. However, as you will have noted from the Follow-Up report (pages 22-24) no action has been taken yet to implement these recommendations.

This is a serious situation because it is handicapping the Auditor General in the effective discharge of his work and his responsibilities to parliament.

The audit office operates with five branches, each headed by an audit director.

May I first introduce Mr. Ian Stevenson, the assistant auditor general and my directors, Mr. B. A. Millar, Mr. G. R. Long, Mr. J. M. Laroche, Mr. A. B. Stokes, Mr. J. R. Douglas and Mr. C. F. Gilhooly (who is president of the professional institute of the public service of Canada).

Mr. Ian Stevenson, assistant auditor general, graduated from University of British Columbia in 1927 with a B.A. degree. He obtained his C.A. degree in 1932. He entered the audit office in 1935 and was appointed audit director in 1940. In 1955 he became assistant Auditor General.

Mr. J. R. Douglas, Audit director, graduated from university of Toronto in 1942 with a B.Com. degree. He entered the audit office in 1946. He was appointed audit director in 1960. Mr. Douglas' principal audit responsibilities are: National Health and Welfare, Veterans Affairs (including Veterans Land Act), Citizenship and Immigration (including Indian Affairs and National Gallery), and Labour (including Unemployment Insurance and government annuities).

Mr. G. R. Long, audit director, graduated from the university of Saskatchewan in 1934, with a Bachelor of Commerce degree. He obtained his C.A. degree in 1935 and entered the audit office in 1941. He was appointed audit director in 1955. Mr. Long's principal audit responsibilities are: The Post Office, customs-excise division, taxation division, finance, central pay office, superannuation accounts, Chief Electoral Officer, crown corporations (including The St. Lawrence Seaway Authority, Export Credits Insurance Corporation, National Capital Commission and Farm Credit Corporation).

Mr. J. M. Laroche, audit section head, obtained his R.I.A. (registered industrial accountant) degree in 1959 and joined the audit office in 1951. He was appointed audit section head in 1961. His audit responsibilities are the auditing of customs-excise division of the Department of National Revenue at headquarters and in the field.

Mr. B. A. Millar, audit director, graduated from the university of Saskatchewan in 1930, with a Bachelor of Commerce degree. He obtained his C.A. degree in 1930 and entered the audit office in 1940. He was appointed audit director in 1955. Mr. Millar's principal audit responsibilities are: national defence (including defence research board and inspection services); defence pro-

duction, along with Canadian Commercial Corporation and Defence Construction (1951) Limited, special examinations, including the army benevolent fund and various other service benevolent funds.

Mr. D. A. Smith, audit director, graduated from Queen's university, with a B.A. degree in 1930 and a B.Com. degree in 1931. He entered the audit office in 1934 and was appointed audit director in 1960. Principal audit responsibilities are: transport, public works, northern affairs and national resources, mines and technical surveys, Royal Canadian Mounted Police, printing and stationery, Canada council, Yukon territorial government and crown corporations (including Crown Assets Disposal Corporation).

Mr. A. B. Stokes, audit director, obtained his C.A. degree in 1940 and entered the audit office in 1941. He was appointed an audit director in 1958. Mr. Stokes' principal audit responsibilities are: such crown corporations, as Atomic Energy of Canada, Canadian Arsenals Limited, Canadian Overseas Telecommunication Corporation, Canadian Broadcasting Corporation, National Harbours Board, Polymer Corporation Limited, Eldorado Mining and Refining, and Northern Canada Power Commission. In addition there are the board of grain commissioners, Canadian Government Elevators, national film board, and the Departments of Agriculture, Trade and Commerce and External Affairs.

Mr. Smith has not been able to be with us today. He is represented by Mr. C. F. Gilhooly, assistant audit director. Mr. Gilhooly graduated from Queen's university in 1939 with a B.Com. degree. Mr. Gilhooly entered the audit office in 1941 and was appointed an assistant audit director in 1960. I might mention that he is at present the President of the Professional Institute of the Civil Service of Canada.

That, gentlemen, will give you a rather quick rundown of the way in which we operate and some of the "clients" we have, using the word in quotation marks. We are pretty fully occupied.

There probably will be many questions as we proceed and, as I mentioned earlier, wherever possible, Mr. Chairman, I hope the appropriate supervisor will be present to assist me in giving you the information in response to your questions.

Mr. McMILLAN: Mr. Henderson, you stated that you had an authorized establishment totalling 179.

Mr. HENDERSON: That is my approved establishment.

Mr. McMILLAN: How many are on your staff at the present time?

Mr. HENDERSON: One hundred and sixty-one. I am 18 short at the moment.

Mr. McMILLAN: And, I suppose, you actually do need them?

Mr. HENDERSON: I certainly do.

Mr. WINCH: As you know, we first considered this matter over three years ago, and we recommended the changes you outlined at that time. What reason has been given to you that no action has been taken for three years to meet a unanimous recommendation of these three committees.

Mr. HENDERSON: Well, frankly, I am not clear as to this reason, sir.

On pages 22 to 24 of the follow-up report I quote the result of the recommendation that this committee made last February, where they called for immediate reconsideration to be given by the civil service commission to granting the exemption mentioned. It was sometime in April before I had word as to what the Civil Service Commission would do, and the answer was they felt they could not do it. As a result, they addressed a letter to the Chairman of this Committee which will come up in the course of discussion when we reach the item in question.

Mr. STARR: A turnover in your staff might be one of the reasons for this situation.

Mr. HENDERSON: I have had a serious turnover Mr. Starr, but this leads me into another aspect of staff management with which we can perhaps deal later.

Mr. STARR: So that is not entirely the reason?

Mr. HENDERSON: No.

Mr. HARKNESS: Is it in the clerical or auditing staff that you are short?

Mr. HENDERSON: The auditing staff as it relates to "upcoming juniors" whom we can push on through just like the private firms.

Mr. HARKNESS: Then this is the most important part of your staff you are lacking?

Mr. HENDERSON: Yes, sir.

Mr. McMILLAN: Is there a large turnover in that area?

Mr. HENDERSON: Yes, there is a considerable turnover these days with young accountants and, if I may use the words, you do have to attend to their needs and see that they get some form of tuition and help along the way to ensure that they will like their work and so long.

Mr. VALADE: I have two questions, Mr. Chairman.

Is the maximum personnel requirement of 179 taking care of the time losses owing to sickness and is this done by using these people in the office to fill in?

Mr. HENDERSON: Do you mean is there any slack in the figure!

Mr. VALADE: Yes.

Mr. HENDERSON: There is not. As a matter of fact, sickness has struck us in several quarters, and it has been a considerable additional handicap.

Mr. VALADE: I believe you mentioned you would prefer to recruit your own personnel without having to go through the civil service commission?

Mr. HENDERSON: That is right. Of course, I would conform to salary structure and all of the other requirements. I have no desire to interfere with that aspect of it but I would like to do my own recruiting because I could fill my establishment and then do a number of other things which at the present time I cannot do.

Mr. VALADE: On this point I would like to ask Mr. Henderson if he could give us a little statement on what his position is in this regard. Would you do this recruiting in conformity with the civil service regulations in so far as standards, qualifications and so on are concerned, or would you have some other ideas along these lines?

Mr. HENDERSON: No. They would be in conformity with the standards that apply in recruiting accountants into other departments of government. But, we would also have a greater regard for the fact that we are, in effect, an accounting office and we have to compete in the same labour market for the same juniors as the big firms such as Price Waterhouse and so on do.

Mr. VALADE: If you recruited your personnel in the way you wished would that mean the public would not be made aware of the possibilities open in regard to positions with the Auditor General's office, and as a result it would be a closed recruiting type of thing?

Mr. HENDERSON: No. We would advertise for them. I am only asking for what is given to institutions like the national film board and the crown corporations. As an officer of parliament I do not think people whom I audit should find my staff. That was the principle this committee discussed.



Mr. LOISELLE: I would like to have this matter of employees discussed further.

As you have stated, Mr. Henderson, you have presently 161 and the committee has recommended 179. Is the reason your staff is not up to 179 a lack of money?

Mr. HENDERSON: No; the money is there. The estimates have not yet been approved but the costs are provided for in the estimates. That is, the treasury board has approved them, but I have only been able to recruit 161 through the civil service commission. I have been offered people by the private accounting firms. Applicants have been referred to me. However, I am not going to make dates I cannot keep. They must apply to the civil service and perhaps I get them and perhaps not.

Mr. LOISELLE: You did make your report to the treasury board?

Mr. HENDERSON: Yes.

Mr. LOISELLE: And you made this recommendation?

Mr. HENDERSON: Yes. It has been on the records of this committee for the past three years.

Mr. LOISELLE: Now, I do not want to be classified as a separatist but I would like to know now what percentage of the 161 staff members is French.

Mr. HENDERSON: We have that figure, sir.

Mr. LOISELLE: You are a member of the council.

Mr. HENDERSON: I was a member of the council of the Institute of Chartered Accountants of the province of Quebec. We have been working hard in the Audit Office to build up our establishment in Montreal, but we are still short there.

Mr. LOISELLE: I would imagine that the French percentage in connection with this figure of 161 is pretty low and I am hoping that in connection with the other 18 you will increase the percentage of French personnel in order to bring the total percentage of French members closer to the percentage of English—and there is no question of being a separatist in that connection.

Mr. HENDERSON: No. I have sought and I do want more senior French Canadian chartered accountants. Among my friends I number quite a few and I would like to see more in the Audit Office. As of December 31, 1962 we had 35 out of the then total of 152, which was 23 per cent.

Mr. LOISELLE: Would there be any possibility of increasing that percentage in the future?

Mr. HENDERSON: I not only would be quite prepared to do that but I would like to have more of them at more senior levels. That involves staff training and bringing them along in a way in which I thus far have been unable to do.

Mr. LOISELLE: We will be keeping an eye on your future reports.

Mr. HENDERSON: Yes.

Mr. HARKNESS: Your request, Mr. Henderson, in regard to recruiting personnel yourself is in line with the recommendation of the Glassco commission, that departments should be able to do a certain amount of their own recruiting and that recommendation now has been agreed to in principle by the government. What is the bar at the present time to your being able to go ahead? What is holding you up? What is preventing you from doing it?

Mr. HENDERSON: At the present time I am hoping for a meeting with the officials of the treasury board, that is, with the secretary, Mr. Steele, who is here today, and with the minister, so as to reach some definite understanding. I have been pressing them—making myself generally unpopular no doubt—but I do regard this matter as very serious.

You spoke of the Glassco commission. I might say they did not examine my office at all because I am an officer of parliament, not of the executive. Had I realized the direction their recommendation might take I would have asked them to examine me and to include my office in their recommendation.

Mr. HARKNESS: But, this recommendation having been made and accepted in principle there should be no bar in principle to your request being accepted.

Mr. HENDERSON: I would hope not.

The CHAIRMAN: Have you a question, Mr. Starr?

Mr. STARR: During the time of recruitment by the civil service commission you must have had communication with them in pressing them for quicker action; were there any reasons given by the civil service commission for the delay in the recruitment? Was it because of lack of qualified personnel or salaries being inadequate?

Mr. HENDERSON: No, the commission has moved reasonably and fairly in respect of salaries although at the present time we are still waiting on some important decisions in this regard. Their procedures are lengthy but are simply not suited to the operations of a small office like mine. Applicants for jobs are frequently required to wait so long that by the time their names come up they have taken other jobs and, thus we lose a many good applicants.

I have a detailed file which I would be glad to show to you.

Mr. HALES: I have been on this committee since this recommendation was first made. At that time we heard all parties concerned, the civil service commission and so on. Mr. Henderson has given us his case, and the Glassco commission have made recommendations along these lines. In my mind, it boils down to two things, namely, that clause 39 of the bill to amend the Civil Service Act would have to be changed, and section 65 of the Financial Administration Act has to be amended.

I would think it might be advisable for the Minister of Finance to appear before this committee to hear the views of all those that we have heard. In this way the committee could get his views on why there is a delay in amending section 65 of the Financial Administration Act.

Mr. RICARD: Mr. Henderson, how do your salaries compare with those paid by private enterprise?

Mr. HENDERSON: They compare very favourably, if anything they are higher at the lower levels. But, as at the higher levels private enterprise rates are higher.

Mr. RICARD: Would that be a reason for your difficulty in recruiting?

Mr. HENDERSON: It is part of the difficulty. But, as I mentioned earlier, the vacancies we are seeking to fill are in the lower levels and, in that connection, the salaries are quite competitive.

Mr. RICARD: How long does it take for a junior to rise to the senior ranks?

Mr. HENDERSON: Well, that depends on the—

Mr. RICARD: I am referring to a normal situation.

Mr. HENDERSON: —form of promotion and the manner in which we are able to develop our staff management. I believe that the time we take to move our people up should compare favourably with that of the large accounting firms. We are doing the same sort of work and competing in the same labour market and, therefore, we must provide the same type of climate for the bright young man who wants to make his future in our profession.

The CHAIRMAN: May I say, gentlemen, that in the course of the consideration of Mr. Henderson's follow-up report the last item deals with this very important problem. It is my view that this is something which I think we will

have to discuss in the steering committee and then bring a recommendation back. At the time we do come to this we probably will suggest that the officers of the civil service commission might well appear here. They have written a letter to me. Of course, this letter was written last April, before I became Chairman of this committee. I think this matter could well form the subject of a meeting or meetings at which both Mr. Henderson and his officials and the officers of the civil service commission could attend. At the same time we could consider Mr. Hales' suggestion in respect of the Minister of Finance being present with regard to the possible amendment of the Financial Administration Act.

It is my hope that at any time we discuss any matter involving any of the departments we should try to have, as we have done today, the senior officials in the person of the deputy minister or others in order that we may have the opportunity for a dialogue between those who are interested and those members of the committee who are here. In this way all the evidence will appear in the transcript and, at a later date, it would prove very beneficial to us when making certain recommendations.

In order that we may have an orderly disposition of the matter perhaps a motion could be put at this time that the follow-up report which Mr. Henderson has been referring to, namely the follow-up report of the Auditor General, should be printed as an appendix to today's proceedings. Then, this will form the basis on which our discussion will be carried on item by item. If this is satisfactory, would someone so move.

Mr. OLSON: Mr. Chairman, I have one question in view of the fact I was not on this committee when these recommendations were made.

Were these recommendations concurred in by the house?

The CHAIRMAN: Perhaps we should ask Mr. Henderson. I am sure the recommendation which Mr. Henderson refers to and which forms the subject of a report was adopted by the house.

Mr. HENDERSON: Yes, they were concurred in by the house.

Mr. LOISELLE: Before I move to include that report there is one question I would like to ask. I just received this material this morning and I did not have time to fully peruse it.

Considering what Mr. Hales said earlier regarding section 65 of the Financial Administration Act in order to give you a chance to hire the right people you need, has that recommendation been standing for the last two years?

Mr. HENDERSON: Well, the committee has made, as you will see on pages 22 and 23, over the years various types of recommendations; they finally said on February 5, 1963, that they were of the opinion that consideration should be given to amending 65 of the Financial Administration Act.

Section 65 states that the civil service commission shall employ such staff as the Auditor General may need to enable him to discharge his duties to parliament, or words to that effect. This committee recommended on February 5, 1963 that meantime the civil service commission should immediately reconsider its position in respect of section 74 of the Civil Service Act. The committee passed this recommendation after hearing from the acting chairman and the commissioners of the civil service commission on February 5, 1963.

Mr. LOISELLE: So, that was the first time that recommendation was made.

Mr. HENDERSON: The chairman of the civil service commission had stated earlier that it was his view that something might be done under section 74 of the Civil Service Act, but this was later denied by the officials present. These officials were asked on February 5, 1963 if they would immediately reconsider their position. I naturally followed up with the acting chairman to see when that immediate reconsideration might take place but I did not hear anything from the civil service commission until April 3, 1963 when I was sent a copy



of a letter addressed to the chairman of the public accounts committee although there was no committee at that time. The letter is here and the Chairman will presumably be referring to it under its heading at the appropriate time.

The CHAIRMAN: That is correct.

Mr. HALES: Mr. Chairman, you made the remark that we take these in the order in which they appear on the list. In view of the fact that this matter of staff recruitment has been before this committee for three years and no action taken, and in view of the fact that the Auditor General's department cannot work efficiently without a complete staff and, therefore, cannot follow up any of the suggestions that we are making or recommending unless he has sufficient staff, I would think it would be most important that we proceed first with this matter, and I would move that this matter of recruitment of staff as it pertains to the Auditor General's office be our first item of business.

The CHAIRMAN: Are there any comments on this?

May I suggest that if the committee adopts your suggestion we probably could make arrangements for the civil service commissioners to be present at the time. I think this would be of some consequence. I do believe they have asked for this opportunity and I think probably the committee would have a better opportunity in this way to become fully conversant with whatever their point of view is.

Mr. HALES: I agree.

The CHAIRMAN: If you like, Mr. Hales, this could be a suggestion we could take up at the next meeting of the steering committee which could make a recommendation to this effect. I do not want to interfere at all with your suggestion, Mr. Hales, but I do think these officials should be present at the time these matters are discussed.

Mr. HALES: I am quite agreeable. But, may I reiterate that this has been put off and put off and put off and I do not think we should allow it to be put off any longer.

My motion is that this be the number one item on our agenda. It is immaterial to me who is called when and the rotation of such witnesses, but I would like this committee right now to decide whether this will be item one or whether we should follow the order that is indicated here. Then the steering committee could decide who they want and so on.

Mr. WINCH: Mr. Chairman, I agree with Mr. Hales on this. I think this committee has a responsibility to make its position clear. For a period of three years now and, particularly in the last report, this committee unanimously made its opinions known on this matter. The view of this committee was accepted by the House of Commons, so whether it is a department or whether it is the civil service commission we are now in the situation where this committee and the House of Commons are being challenged by its servants, and I strongly feel this cannot be allowed to continue. As I said, it is my feeling that we should give this top priority in order to make our position very very clear.

Mr. OLSON: Although that could be true, the report we have before us is a follow-up report in response to recommendations made by the committee during 1961, as a result of which the whole follow-up report deals with recommendations that were made two years ago. While the staff problem may be the most important one it may be only one of many many important ones.

Mr. HENDERSON: May I just clarify that point. The committee convened last winter in December and started its business in January. But it only held five meetings and dealt with two items, one, this staff problem, and the other the denial of access to books and records which I had reported in my 1962

report. It did not have time to proceed with anything else. Therefore the follow-up memorandum brings this matter up to date here and also gives later information with respect to things carried forward from 1961. I hope this clarifies it.

Mr. OLSON: My point is that the Chairman has suggested that we have a motion to put this report before us and to deal with it after we have considered all the items in it, and that we might give priority to it.

Mr. WAHN: I am a new member of the committee. Referring to what you said at the beginning, I gathered that the only power of this committee is to make a report, and that we have no sanctions to enforce recommendations made in that report. I gather that these recommendations with regard to staff have been made on a number of occasions, and that all possible publicity has been obtained for them.

As a new member I would like to find out more about how the committee works, what its job is, and various matters considered by the committee. I can see where we could spend a great deal of time rehashing what has already been rehashed three times with respect to staff problems. But all we could do would be to confirm a report which has already been made three times. Moreover those of us who are new members of the committee would not have an opportunity to obtain any great insight into the purpose and functioning of the committee apart from this one particular problem. While I appreciate the problem, it seems to me that the recommendations have been made by committees on several occasions and there is nothing we can do as far as the Civil Service Commission is concerned. I wonder what useful purpose there would be to make a fourth recommendation adding to the three already made on the same subject, when it would only take up a great deal of time. I suggest the committee get on with its real job first.

Mr. McMILLAN: I agree. We could give this priority, but I would like to know when former recommendations are made, if the Civil Service Commission or the then minister of finance was called before the recommendations were made?

Mr. WINCH: Yes, we had officer after officer appear before us over a long period of time.

The CHAIRMAN: Are there any other comments? There is a motion before us made by Mr. Hales? Is it in the form of a motion, or rather merely a suggestion, Mr. Hales?

Mr. HALES: I make it in the form of a motion.

The CHAIRMAN: Would you mind putting it in writing so that we can deal with it.

Mr. MUIR (*Lisgar*): While I realize the importance of this particular problem, I am more or less inclined to agree with you, sir, that we go through the recommendations and the report of the Auditor General, and while we could give high priority to the idea of his being able to get his own people, we study or take it up in sequence; otherwise I think the committee would become bogged down with a lot of detail which we could probably avoid if we took it up as suggested.

The CHAIRMAN: I hope that when motions are made we can have them in writing. This would be in conformity with the rules and it would probably make the duties of the Chairman a little easier, because it would let us know precisely what is moved.

Mr. STARR: I think we would get bogged down with too many ideas on how to proceed. The problem is that the Auditor General's office has 18 members short of what he considers to be the full complement. The problem lies in the recruitment of the Civil Service Commission. Some of us know through experience, know how long it takes the civil service to recruit a staff for any

department; and it seems to me that you cannot overcome that difficulty. So it comes down to this, that you must find a new way of recruitment, and a quicker way. Perhaps it could be done through an amendment to the Financial Administration Act. Surely this would cut out the red tape and go straight at the problem and deal with it in that respect. If we could get the Minister of Finance to amend the section of the act which would provide an opportunity for direct recruitment by the Auditor General, I think this would solve the problem. I think we would be wasting a lot of time talking around it as to what should be taken up first.

Mr. HALES: The motion I make is that the committee commence their agenda with the Auditor General's office recruitment problem, and that the steering committee arrange the order of witnesses to be heard.

Mr. LESSARD (*Saint-Henri*): I second the motion.

Mr. VALADE: Before the motion is put I would refer to page 26 of the report in French, article 106 where it was suggested that the Civil Service Commission come to an understanding with the Auditor General because of an amendment to the Civil Service Act, article 39, and that the Auditor General is authorized to get into agreement with the civil service to recruit his own personnel. This is at page 26 of the French report. I wonder if Mr. Henderson has been able to come to some agreement, because this is authorized by the report.

Mr. HENDERSON: Yes.

Mr. VALADE: Was there any difficulty to come to an understanding with the Civil Service Commission?

Mr. HENDERSON: The Civil Service Act was amended on April 1, 1961. The committee was meeting at that time and it thought that provision could be made in the act for the Auditor General to recruit his own staff. And at the 1963 meetings I made a long statement which is contained in the minutes of this committee meeting giving exactly the outcome of what happened. Rather than to take up the time of the committee to repeat it at this time you might care to refer back to it. I think it is February 5, 1963.

Mr. VALADE: I would conclude that you could not get an understanding with the Civil Service Commission to settle the problem under the terms?

Mr. HENDERSON: No, I am afraid I could not, and the reasons are all set out in the hearing of February 5 last.

Mr. VALADE: In that case I would concur with the suggestion.

The CHAIRMAN: Are there any more comments on the motion?

Mr. FORBES: What assurance have we that there are sufficient trained personnel to fill these positions which Mr. Henderson might require?

Mr. HENDERSON: In my opinion they are available. I speak from the basis of my experience and knowledge of the labour market and conditions experienced by the big professional firms, as well as of the people available. If I were given the right to recruit, I could bring my staff up to strength in the normal manner very quickly.

Mr. WAHN: Could the subcommittee give any thought to the most efficient and business like way of setting up an agency, and if this item were not the first item on the agenda, could the subcommittee not consider the possibility of the motion? This is the type of thing which I think could be best worked out by a very small subcommittee which is representative of all the parties.

Mr. HENDERSON: The order in which the items appear on the follow-up memorandum is my own. Since 1960 I had introduced my staff problems, only as the very last item after we had dealt with all the other business. That



is why it is still at the tail end of the various statements. That is the reason it ends up in the last few pages. I could just as well have put it in the front; however I tried to follow the sequence of the 1960 report.

The CHAIRMAN: The subcommittee did not go into details. I think I am correct in saying that the general practice has been to take the Auditor General's follow-up comments on the last report of the committee. This was what has been placed before you. Apart from that we did not have any actual discussion of this item.

Mr. WINCH: One of the main reasons was that unfortunately when our steering committee met the Auditor General was overseas on business and we did not have an opportunity to discuss it with him.

Mr. LOISELLE: The Auditor General said he could have put it at the beginning in 1960. There was a recommendation that the Civil Service Commission get along with Mr. Henderson to get his personnel. Why is it that since 1960 the question has not yet been solved? Why is there a lack of co-operation with the Civil Service Commission towards Mr. Henderson? Is there something wrong? I do not understand it.

Mr. HENDERSON: The best answer I can give you is the long statement I made February 5, 1963, which is to be found in the minutes of the committee, in which I brought the members of the committee right up to date from 1960. I will be happy to go over it now, but it is all contained in the minutes of this committee for February 5, 1963. When the Civil Service Commission was before this committee they made a statement, and I made a statement, and I brought the whole history of it right up to date.

Mr. LOISELLE: As chief of that department you have said that since 1960 you brought the problem here. It would seem that you still need those 18 more personnel on your staff?

Mr. HENDERSON: I certainly do.

Mr. LOISELLE: There is something wrong somewhere, and I think we should decide how to correct the situation so that the committee will not be faced with this question every year.

Mr. FANE: Mr. Chairman, Mr. Henderson may have answered the question I have in mind in the answer he gave to Mr. Loiselles, but I would like to ask Mr. Henderson if he feels that the Civil Service Commission has deliberately set out to hamstring him?

Mr. HENDERSON: No, sir, I do not believe that. They have accommodated me on a number of aspects, and on a number of special type requests I have had to make. I think the trouble is with their system. Mr. Glassco dealt with this in his reports more adequately than I can, that is to say, the length of time they take, the opportunities that are lost in terms of getting the best people that we should be getting, and things like that. Moreover it is very costly.

Mr. FANE: What reason is given by the civil service commission in not providing you with the necessary help.

Mr. HENDERSON: Well, there are other departments of government competing for the same type of help. They may get a lot of answers to applications, then they have to hold hearings, arrange appearances before examination boards, and that type of thing.

Mr. FANE: The mills of the gods grind a little too slowly.

Mr. HENDERSON: That is right, because sometimes we have to wait for as long as nine months.

Mr. FANE: There is too much time taken up with red tape.



Mr. WINCH: On a point of information, I would like to ask if we are not doing exactly what we would be doing if we passed this motion, or if we did not pass it and waited until we came to it.

Mr. RICHARD: We are just doing now what has been proposed and in a very bad way. If we do not get this motion approved, we will cast some doubt on the efficiency either of the Auditor General or the civil service commission or somebody else by not giving the full story. So we might as well stop questioning the witness at the present time and proceed with the motion.

The CHAIRMAN: I shall put the motion that the committee commence their agenda with the Auditor General's office recruitment problem and that the steering committee arrange the order in which the witnesses appear. All those in favour? Those opposed? I declare the motion carried.

Motion agreed to.

Now may I come back at this time to what I had asked for, that the Auditor General's follow-up comments be made and printed as an appendix to this day's proceedings. Then they will be available.

Mr. LOISELLE: I so move, and being a new member I did not have time to look at them. So this way I shall be given a chance to do so.

Mr. MUIR (*Lisgar*): I second the motion.

Motion agreed to.

(See Appendix "A")

Mr. VALADE: I would like to suggest that the report of February 5, 1963 of the committee concerning that question be distributed, either as an appendix or given to us so that we might look over all these things.

The CHAIRMAN: I think we could arrange that. It will be distributed to the members. I take it from Mr. Hales' motion that the steering committee would arrange the details. Are you agreed that we proceed until that time with the first item, which is the follow-up report? We have called and requested some of the senior officials of two departments to be here. Are you agreed that this should be done?

Agreed.

Now I would ask Mr. Henderson if he would carry on with his discussion of the follow-up report. Do you all have copies of it?

Mr. HENDERSON: Mr. Chairman, the first item has to do with the form of the public accounts. In 1961 this committee formed a subcommittee charged with looking into the form of the public accounts, and the outcome of that is described in the first paragraph.

I stated in my 1962 report that I hoped, although the subcommittee of the public accounts committee did give some attention to it, that further consideration would be given to the summarizing or reducing the number of detailed listings so as to present more significant and relevant information to parliament and to the committee.

I gave examples of additional important information which I think should be disclosed in the public accounts. It seems to me that there is considerable material in there which, were it considered perhaps by another committee of this main committee, could be subjected to simplification or removal. The production of the public accounts is a very costly business as the comptroller of the treasury himself outlined on a previous occasion, and I shall have further comments to make on this subject in my 1963 report to the House. I would hope that the committee might consider appointing a subcommittee to examine the three volumes of the public accounts with a view to improving the presentation and doing more in the way of reducing their size; particularly in the giving of detailed listings.

The CHAIRMAN: Thank you, we will take that under advisement. Are there any comments from the members of the committee particularly at this time?

Mr. HENDERSON: May I add one thing further: that on November 5th, the President of the Privy Council in following up the Glassco commission report tabled a list of items, of which item 17 indicated that they were going to give attention to this subject, and would likely be submitting some material to this committee which would be all to the good in obtaining some action here.

The CHAIRMAN: Thank you. The next item is the form of the estimates.

Mr. HENDERSON: With respect to the form of the estimates, I do not know if Mr. Steele is here today.

The CHAIRMAN: Yes, he is with us today.

Mr. HENDERSON: You might care to ask him to speak on this subject regarding the proposition dated September 30 addressed to you.

The CHAIRMAN: Would you first, for the benefit of the new members of the committee, indicate the nature of the problem that has been referred to Mr. Steele, and what would be given in reply? Would you please come up to the head table, Mr. Steele? May I at this time introduce to you Mr. Steele, secretary of the treasury board, an organization with which we have had some experience at one time or another. Mr. Steele has been good enough to come here at my request, and he has also placed before me a statement on the particular matter, which I think you will find in the material distributed to you this morning. He delivered a copy of his statement in both English and French.

As he is very keenly interested in this item, I think probably the members of the committee might like to discuss it with him and question him on it as well as Mr. Henderson. Perhaps Mr. Henderson would outline the problem briefly, then we might ask Mr. Steele to comment on it.

Mr. HENDERSON: On page 1 of the memorandum you will see the heading "Form of the Estimates". It runs through page 2, and at the bottom of page 2 I have some comments to make on it. And if you will be good enough to turn to page 3, and direct your attention to the last two paragraphs of my comments on page 3 I say:

In my opinion it is a matter of vital importance that the form in which the estimates are presented be improved. Expenditures of public funds at the level at which they exist today are of such importance to the Canadian economy that it is essential that the estimates be presented to parliament in the clearest and simplest manner possible. Only on this basis can parliament be expected to give the proposed expenditures the scrutiny and consideration they should have.

It is my opinion that more effective progress could be made in developing improvements in the form of the estimates and laying suggested improvements before the committee were the secretary of the treasury board to consult with the Auditor General before presenting further proposals for the consideration of the committee. The form of the annual estimates determines in large measure the manner in which the subsequent accounting for expenditure is maintained and reported to parliament in the public accounts and this, in turn, is important to the Auditor General in relation to his responsibilities to parliament.

As I stated here, the proposition before the committee is to reduce the number of votes and I referred to this in the second paragraph in my comments on page 2. But since we have Mr. Steele with us today I feel I should turn the floor over to him so that he may outline his proposition.

The CHAIRMAN: Would you mind outlining to the committee the problem as you see it and the suggestions you have made, Mr. Steele?

Mr. G. G. E. STEELE (*Secretary of the Treasury Board*): Thank you, Mr. Chairman and members of the committee. First of all I would like to thank you and the committee for giving me an opportunity to speak to this item. We are commencing at this time a review of the estimates for the fiscal year 1964-65, and since it is our hope that we may be able actually to introduce the proposed vote consolidation when these estimates are tabled in the House of Commons, it is of course vitally important that the committee hear from us what it is we had in mind, and if there are any reservations about this course of action that they be expressed through your comments and recommendations.

I think the view has always been taken by successive ministers of finance that the Financial Administration Act charges the Minister of Finance with responsibility for the full form of the estimates and the public accounts, but they have always taken the view also, and very wisely so, that the standing committee on public accounts of the house should have an opportunity to make comments or recommendations as to the form of these house documents. If I might just go back to the 1960 meeting, at that time we were able to bring forward a number of recommendations which I do not think I need go over here because I have been reading from Mr. Henderson's follow-up report and I see that he has dealt completely, and adequately with what went on at that time.

There had been no substantial changes in the form of the estimates from 1950 and 1951 to that point in 1960. There had been repeated comments in the intervening years that the business of the house would be facilitated if a number of improvements were made. Some of these were recommended by your committee in 1960 and were introduced into the blue book of estimates in the last two years. In addition to the permanent vote number system, there was a consolidation of detailed information and the elimination of a great deal of detailed information relating to staff, with the addition of certain information to provide a better understanding of the total cost of the service. This information is in the estimates now in what we would call memorandum form, which is not actually voted by the house, but presented in such a way that the members would have a better impression of some of the major cost items. I would like to go to page 3 of Mr. Henderson's report and to follow up the view he expressed on the importance of the form of the estimates and the urgent necessity of making further improvements.

One thing that intervened since 1960 which was of considerable significance to the house and the Department of Finance and the government since that time, has been the report of the royal commission on government organization in which they had many things to say about the whole system of financial control in the government. They had some positive recommendations to make about how it could be improved. If I might refer generally to this for a moment and then come back to what it is we are proposing, I might be able to give you some feeling for what I think we might do at this time, but I am not going to go as far as the Auditor General would like to see us move in the next year or two. The reason for this is that the estimates in addition to being a very vital house document are an expression of the system of financial control which the government uses in conducting its financial affairs.

Since the main recommendation of the Glassco commission was that there should be far greater decentralization of financial control from central agencies to departments, it seems to us—and I think our advice here—is not just that of the treasury board staff in the Department of Finance is that we should consider the advice of the committee but also the senior officials who have been receiving the main recommendations of the Glassco commission. It was their advice that we should do a preliminary study of the subject, and the prin-



ciples which the royal commission had set out, to see whether we could devise a system along the lines which the royal commission recommended.

That is the point at which we now are. For the last three months we have been carrying forward a program which will involve doing a detailed study, a pilot type of thing, for four government departments taken from the civil area, but this will take six months to complete, plus another six months in which to evaluate the evidence.

One of the main purposes of this study is to establish teams of senior people, from the staff of the treasury board and from other groups within the public service, who can contribute to this, including the comptroller of the treasury whose own operations would possibly be affected by the findings. These teams will do a study within each of the departments, to enable those departments to decide on what type of financial control would best achieve the objectives for carrying out the operations within that department by in fact modifying, for example, the system of accounting control. They would concern themselves with such things as the performance and objective type of financial report structure which these departments require better to handle their affairs; what reports should be available to the senior managers in the department and what type of report will continue to be necessary in order to carry out the existing legal responsibilities of the comptroller of the treasury in the area of pre-audit, cash control, and cheque issue.

These are all problems which are going to have to be looked at very carefully. I have gone into this detail to indicate we came to the view, before we could recommend sensibly to the public accounts committee rather significant changes in the form of the estimates, perhaps changing in a fundamental way the manner in which we present estimates to parliament; that these would be consistent with the type of financial control we are working toward in order to give greater authority and responsibility to departments in this field. Short of that and coming directly to the recommendations which we made that the committee might look at immediately we thought that clearly there was one thing that both the house and the departments of government would welcome at this time, namely a drastic reduction in the number of actual vote headings under which parliament considers the annual expenditure program.

In looking at the Canadian situation, by any test, we have, I think, by far the most detailed system of vote headings that any country of comparable magnitude has, certainly far more than you find in the United Kingdom estimates and a number which is almost equivalent to the United States budgetary estimates, which are vastly greater in number and complexity. It seemed to us the time was long past when this should continue and that what we could do would be to recommend for the committee's consideration a substantial reduction in the number of headings of the actual votes while preserving in the detailed section the same amount of information which the members of the house now have.

This would mean that whereas you might have, for instance, in the Department of Agriculture, 25 votes—and I am choosing this number very arbitrarily—you might be able to consolidate these into five major headings which would describe broader areas within the department, which would give you a better feeling in respect of the whole of say the production and marketing branches of the department or the research activities and still achieve the same purpose from the point of view of the house understanding what the money is for. There is a great advantage in this from the department's point of view. It would provide them with broader vote authorities from parliament within which they could plan their operations and move in the direction of the type of financial control we are studying now. It is really the substance of that which we are embodying in this paper and which we indicated to you in September.

The CHAIRMAN: I think it would be useful if members of the committee would allow Mr. Henderson to make a comment in this connection in respect of the attitude he takes, before questioning Mr. Steele; in that way the committee will have a complete spectrum of the opinion on this, and then perhaps the members of the committee could direct questions to either of these two gentlemen, Mr. Henderson or Mr. Steele.

Mr. HENDERSON: First of all, I should like to say, sir, that Mr. Steele has given very excellent leadership in this field involving the Glassco recommendations, and in working toward the goal that he has been describing to you, namely program budgeting which, as he pointed out, is some way off yet because they are doing a pilot operation in four departments.

Now, the straight proposition of reducing the number of votes is a very important one for you to consider because it touches directly on parliament's control of public spending.

It is my aim, as your adviser and in terms of my responsibility to parliament to watch this very closely and to support every proposition that comes along for strengthening that control. That is one of the reasons I am calling for more information in the estimates so that they are clearer and simpler, and so you will be able to bring your judgment to bear on a set of facts that is clearly set out.

As Mr. Steele has explained, his proposal of reducing the number of votes would apply to the estimates in their presently existing pattern as you have them now. He and his treasury board staff already have made over the past several years some excellent improvements in them, in which this committee in the past has had a hand, particularly the showing of the approximate cost of services provided by other departments, which is useful additional information.

I already have given you on page three of the follow-up memorandum my views in this matter. As I mentioned today, in my 1960 report I made recommendations designed to improve the form of the estimates, and I have repeated them each year ever since. They were discussed in a subcommittee of this committee in 1961. Now, the Glassco commission has come along and not only has agreed with me but carries the recommendations further by advocating what Mr. Steele himself has been describing, that is, to move into program or project budgeting, which is the logical method of presenting such information effectively to the people who are charged with approving it.

It is of interest to me that on November 5 last, Mr. Lamontagne, President of the Privy Council indicated that the government supported this proposal of the Glassco commission of program budgeting and plans to move in that direction as Mr. Steele has confirmed. Mr. Steele has explained how his staff is proceeding with studies to develop this type of program budgeting in four departments. I was quite interested—and I think you will be too—in a treasury board bulletin issued on September 18 last in which these initial steps were outlined and certain directions were given to the people who are making the pilot studies. I would like to read an excerpt from this: “the determination of programs and activities in this work will involve an examination of the functions, operations and organization of the department. The programs and activities”—that is to say, resulting from this study—“will then be translated into a vote structure and will be the basis for the study of financial management in the department”.

Consequently, as I see it, simply to reduce the number of votes now in the present existing estimates method of presentation is like putting the cart before the horse; it seems to me the effect could be to lessen parliamentary control, not strengthen it. I would be prepared to cite to you numerous examples of this, if you wish, from the 1964-65 estimates presentation which Mr. Steele kindly prepared for us as an addendum to his paper. We would like to see the

wording he is going to put on the votes broadened to convey more adequately what it is the votes are covering. You, on the other hand, may feel you would be just as content to look at the detail sheets and find the answers there rather than in the vote wording itself. But, that is the way I view it, and I feel I should make my position clear to the committee on this point. I would welcome a full discussion not only on the subject of the headings of the votes but also under the heading of the form and content of the estimates, including the proposition to consolidate the votes. It may be you would want to consider referring this very important matter and, I might say, very complex matter, to a sub-committee, as you did in 1961.

Mr. STARR: I would like to ask a question at this point. In view of your remarks near the end of your presentation I came to the conclusion that you, Mr. Henderson, did not have any strong objection to consolidating the number of votes but rather you thought if that was the case, then a full and complete explanation should be given as to what that vote represented.

Mr. HENDERSON: From the examples on the galley sheets Mr. Steele attached to the memorandum before the committee we certainly feel that in many cases the wording should be changed. I have examples here but they are too numerous to cite. I will put them together, if it is the committee's wish, at a later opportunity, or will lay them before a sub-committee to show why. Personally, I would rather push full steam ahead to get program budgeting and then let the vote structure emerge from that, which I suspect is what they had in mind when they issued their September 18 bulletin.

Mr. STARR: In view of that I wonder if Mr. Steele could give us the former votes and their description and compare them with what he proposes to do, so we could see what deletions have been made and how it is being described in the new format as compared with the old.

Mr. STEELE: Yes, we could do this. I think we have just one copy of this draft. Until we knew the wishes of the committee we did not want to prepare a larger number of copies of it. However, it is available and if it should be studied by the full committee or at the sub-committee level I would be pleased to make copies available.

The CHAIRMAN: We have the galley proofs of the suggested consolidation and, of course, we can produce the existing form.

Mr. STARR: Yes, in order that we may make a comparison.

Mr. STEELE: May I add one or two things at this point. I do not disagree with what Mr. Henderson has said about this; I quite agree with his observation, that the main point is the possible loss of parliamentary control. I would cite three or four things which led up to the conclusion we should make a recommendation on this.

Had there been no Glassco commission and none of the upsurge of interest in sort of reforming the whole structure of the estimates we would say without any hesitation at all this would be the type of recommendation we would have brought forward long since as being a desirable one not only from the point of view of departments but also from the point of view of the house if it helps to facilitate discussion in committee of supply, which is an important consideration. Our impression was that we certainly would like to have the views of all the members on this because we would be barking up the wrong tree if it was not so, and if what we proposed actually did not lead to a sharper type of discussion in committee of supply we should not proceed along that line.

Secondly, it seems to us the major reforms which are envisaged by the studies we are doing are at least two, and perhaps three years, off. It is our conclusion, in looking at it, we would be very fortunate if we could bring anything forward for 1965-66 and, possibly, 1966-67, and a better year, it seems to me, knowing all the problems involved in getting the department ready for this



system, is the year after that. We were appalled at further delays in making what seemed to us to be sensible improvements.

There are two other points. When we did this proposed consolidation we had in mind very much the likely types of authorities which would be embodied in these program limits, and we came to the conclusion what we are recommending would be entirely consistent with this; that this would be a step in the direction of what you would reach in terms of the amounts of money and the programs they described, even though we are using the existing estimate headings.

Another point is that by doing this consolidation we will put departments in a position where we are able then to work with them. This is a straight administration point and enables departments to handle their own organizations internally as we go along in the direction we are trying to achieve on this program budgeting side. By these broader authorities they are able to do the type of re-organization which we think is going to be necessary in order to achieve the aims of program control of the type we are thinking about. These are the things I wanted to get out which has led us to bring this forward at this time.

Mr. HARKNESS: In connection with this matter of a reduction in the number of estimates I would agree with the point of view put forward by the Auditor General, but I would go farther. I think the reduction in the number of estimates, which already has taken place, and which has been very considerable, has reduced considerably the ability of the house to effectively go into expenditures and to control them. As an example, back in the period 1945 to 1949 there was something in the neighbourhood, I think, of 40 to 60 items under national defence and, at that time, I think we had a very much more arbitrary discussion of that department and a better understanding of how it operated as far as the House of Commons was concerned than was ever the case since. As a result of reducing the number of estimates in that department to about five, and only two or three were effective items, this meant that in respect of anything from that time on you had always a very great roundhouse discussion, with a dozen different matters being brought up by different members, all, of course, on one item. You could bring up anything in that item, and the result was a confused discussion and a lack of ability really on the part of the members of the house to come to anything definite in discussion of these particular estimates.

It seems to me the greater the extent to which you reduce the number of estimates the more confusion is created really in the minds of members, and the less logical discussion you get of the estimates and the expenditures of any department and, therefore, the less control the House of Commons can exercise in that regard.

Now, I quite realize, on the basis of my own experience in three departments, the administrative advantages which Mr. Steele has mentioned in having a very small number of estimates because then there is no difficulty as far as transferring votes are concerned. But, that can be looked after, I suggest, by provisions which always have existed enabling, with the authority of treasury board, a money vote for one particular item to be transferred to another, if this is justified. But, certainly from the point of view of the House of Commons, and the essential function of the House of Commons is control of expenditures, it seems to me the more you reduce the number of estimates the least effective you make that control and the more actually you give up what is the essential business of the house.

Mr. MUIR (*Lisgar*): Did I understand Mr. Steele to say he had written certain recommendations to you earlier?

The CHAIRMAN: The report to the standing committee on public accounts on changes which are proposed in the number and nature of votes in annual estimates has been distributed to the committee.

Mr. MUIR (*Lisgar*): I see. Are you going to suggest that this be appended to our minutes?

The CHAIRMAN: In view of the time left, I think we should consider at least one suggestion which was made, the referring of this matter to a sub-committee. Obviously it is a matter of some complexity, and it concerns a study of the galley proofs which Mr. Steele will make available as it pertains to the estimates in their present form.

A sub-committee was established by this committee on two occasions on the understanding that under the rules we cannot delegate binding authority to a sub-committee but we can delegate authority to them to inquire into and report back with recommendations to the main committee.

In view of Mr. Hales' motion, and as we will not be proceeding with this matter in the full committee right away, is it your wish that we appoint a sub-committee of seven to look into this matter and report back to the main committee at an appropriate time, after having fully considered what is involved.

Some HON. MEMBERS: Agreed.

The CHAIRMAN: Now, before we adjourn may I express my apologies to Mr. Daze, assistant deputy postmaster general, who has appeared with his staff in the hope we might reach an item in which he is involved. It looks as if it might be some time yet before we reach this particular item.

## APPENDIX "A"

FOLLOW-UP REPORT BY THE AUDITOR GENERAL TO THE STANDING COMMITTEE ON  
PUBLIC ACCOUNTS ON THE ACTION TAKEN BY DEPARTMENTS AND  
OTHER AGENCIES IN RESPONSE TO RECOMMENDATIONS  
MADE BY THE COMMITTEE IN 1961

In paragraph 105 of its Fifth Report 1961, presented on July 1, 1961, the Committee requested the Auditor General to report to it on the action taken by government departments and other agencies towards implementing the recommendations made by the Committee. This is my report on the current situation with respect to the various recommendations made by the Committee in 1961.

It would appear that action, which the Committee might consider appropriate in the circumstances, has been taken by the departments or other agencies concerned in 25 of the 35 cases where recommendations were made by the Committee.

## FORM OF THE PUBLIC ACCOUNTS

In paragraph 9 of its Second Report 1961, presented on April 19, 1961, the Committee recommended that Volume I of the Public Accounts be divided into two volumes in future, the first to contain the summary report and financial statements and the second mainly details of expenditures and revenues, with the former Volume II, containing the financial statements of the Crown corporations and the audit reports thereon, becoming Volume III. The Committee further recommended, in paragraph 10 of the report referred to, that the following additional information be included in the explanatory notes following the summary of allotments and expenditures for each vote, in the departmental sections of Volume II: (i) explanation of the cause of the variation, if significant, between the appropriation and the total of expenditures charged thereto; and (ii) reference to any ex gratia payment in excess of \$100 entered as a charge to the vote.

*Comment by the Auditor General:* The Public Accounts volumes for the fiscal year ended March 31, 1961 were arranged in the manner recommended by the Committee and the additional information desired was included in Volume II, and this improvement was continued in the Public Accounts for the year ended March 31, 1962.

## FORM OF THE ESTIMATES

On April 19, 1961 the Secretary of the Treasury Board presented a document to the Committee (pages 214-240 of 1961 Committee Proceedings) prepared by the Staff of the Treasury Board, dated April 14th, entitled "Possible Changes in the Form of the Annual Estimates". The Committee agreed that the Auditor General be asked to study the proposed changes as set out in this document and to report his observations thereon to the Committee in due course.

In accordance with this request, the Auditor General reported his observations on this Treasury Memorandum to the Committee at its meeting on May 16, 1961 (pages 376-382 of 1961 Committee Proceedings). At the same meeting a Sub-committee on Estimates was formed by the Committee. Following the report of the Sub-committee to the Committee, the following recommendations for improvement in the form of the Estimates were made by the Committee in paragraphs 2 to 6 of its Fourth Report 1961, presented to the House of Commons on June 20, 1961:

2. In the opinion of your Committee the following interrelated changes in the form of the Estimates would contribute to a better understanding of the content of the Estimates:

(a) a new 'permanent numbers' Vote system;



- (b) the inclusion of Vote numbers in the Details Section;
  - (c) the addition of a departmental Table of Contents to the Estimates Book;
  - (d) the rearrangement of the sequence of information so that the Details Section of each departmental class would be located immediately following the Vote Section for that class;
  - (e) the inclusion of separate summaries at the end of each departmental or agency grouping so that the sources of the amounts carried forward into the over-all Estimates summary will be clearly evident.
3. The inclusion of additional information in the Estimates and the rearrangement of existing detail were also given consideration:
- (a) Your Committee recommends the proposal to distribute, for information purposes, the costs of major common services which are provided to other departments without a corresponding charge to their appropriations.
  - (b) Your Committee recommends the proposed rearrangement of staff detail which will result in a clearer understanding of establishment proposals and is pleased also to note that this improvement will result in a sizeable saving in the work-load associated with the present detailed costing of salaries estimates.

4. Old Age Security payments have, since the inception of the program, been included with the budgetary items in the Estimates although Parliament has provided the Old Age Security Fund with its own sources of revenue. Inclusion of this different type of expenditure each year in the Estimates with the Budgetary items complicates the Estimates Summary and also the Standard Object Summary in the back of the Estimates Blue Book. Your Committee recommends henceforth that this present method of presentation be discontinued and that the item be shown at the bottom of the Estimates Summary in the front of the Book for information only.

5. Since 1937 when the last major revision of the number and nature of Votes was made, there has been a substantial growth and reorganization of the public service. These changes have not always been matched with changes in the Votes. Therefore, it is recommended that the officials concerned study the matter further and present the results of such a study to the Public Accounts Committee during the next session.

6. Your Committee recognized that there are other possible changes in the form of Estimates. Some of these are of a fundamental nature and your Committee was not able to give full consideration to these proposals in the limited time available. The Committee was of the opinion that this factor should not delay the implementation of those recommendations on which there is full agreement. These recommendations are contained in paragraphs 3 and 4 above. Your Committee recommends that other possible changes be considered early in the next session.

*Comment by the Auditor General:* The changes in presentation recommended in paragraphs 2, 3 and 4 above were implemented in the Estimates Book for 1962-63 and were continued in the Estimates Book for 1963-64.

With regard to the recommendation made in paragraph 5 quoted above, the Secretary of the Treasury Board addressed a letter to the Chairman of the Committee on September 30, 1963 submitting, at the request of the Chairman of the Treasury Board, a report on the question of the revision of the number

and nature of Votes in the Annual Estimates. The Secretary provided me with an advance copy of this report and we are making a study of it and expect to have some comments to make when the matter is given consideration by the Committee.

Included among the "other possible changes" referred to in paragraph 6, quoted above, were those suggested in paragraph 16 of my 1960 Report, as follows:

- (a) comparing the amounts estimated for the ensuing year directly with the anticipated actual expenditure for the current year, as well as with the amounts that had been estimated for the current year;
- (b) giving the estimated amounts in three columns: estimated expenditure (gross); estimated revenue; and net requirements to be voted (thus giving Parliament an opportunity to consider the sufficiency of receipts for services rendered, in relation to the costs incurred);
- (c) including both operating and capital budgets of Crown corporations, even where funds will be forthcoming in full from corporate resources (thus giving Parliament an opportunity to consider broad policies associated with their operations); and
- (d) including appropriate explanations in all cases where expenditures proposed for the year involve commitments for future years.

I have not been informed as to the extent officials of the Treasury Board may have considered these and "other possible changes" in the Form of the Estimates. It is of interest to note that the Royal Commission on Government Organization in commenting on the Estimates in Volume 1 of its Reports (Report 2, Part 2, Chapter 2) published on September 6, 1962, includes recommendations along the above lines.

In my opinion it is a matter of vital importance that the form in which the Estimates are presented be improved. Expenditures of public funds at the level at which they exist today are of such importance to the Canadian economy that it is essential that the Estimates be presented to Parliament in the clearest and simplest manner possible. Only on this basis can Parliament be expected to give the proposed expenditures the scrutiny and consideration they should have.

It is my opinion that more effective progress could be made in developing improvements in the form of the Estimates and laying suggested improvements before the Committee were the Secretary of the Treasury Board to consult with the Auditor General before presenting further proposals for the consideration of the Committee. The form of the annual Estimates determines in large measure the manner in which the subsequent accounting for expenditure is maintained and reported to Parliament in the Public Accounts and this, in turn, is important to the Auditor General in relation to his responsibilities to Parliament.

## SECOND CLASS MAIL

In paragraph 7 of its Fifth Report 1961 the Committee referred to a comment in its Third Report 1960 that it had been informed that the handling of second class mail had been estimated by the Post Office Department as having cost \$28 million in 1958-59 (up \$4 million from 1956-57) while revenues were \$6 million (the same as in 1956-57)—and stated that it had recommended that the Department "review the problem to the end that a more realistic policy be adopted."

In paragraph 8 it was noted that the Committee had been informed by the Deputy Postmaster General that note had been taken of the recommendation, and the question of increased postal rates had been raised with the Postmaster General, but that the Royal Commission on Publications having by then begun

its studies, the Postmaster General had decided that the Department should await the Commission's report before changes in legislation were proposed. The Committee noted that the report of the Commission had included recommendations with respect to postal rates and recommended "that the Department give active consideration to the matter".

*Comment by the Auditor General:* On December 12, 1962 I wrote to the Deputy Postmaster General asking to be informed regarding changes made since 1960 which were designed to affect the relationship between the cost of and revenue from handling second class mail, and the following was included in his reply dated December 18, 1962:

In our letter of February 15, 1962 we mentioned that the "Mailing in Canada" rate was increased to 5 cents per pound effective August 1, 1961, and that the additional revenue resulting from this increase was estimated at one and three-quarter million dollars.

In the first 12 months of operation the revenue for several months exceeded the revenue for the corresponding months in the previous year by more than \$150,000 but the overall additional revenue for the year amounted to \$1,454,000. The increase in the rate still appears to be responsible for readjustments in the volume of mailing in Canada. We are hopeful that when the present monthly fluctuations level off, the additional annual revenue will be approximately one and three-quarter million dollars.

In addition to the above we are also considering increasing the rate on foreign publications mailed by newsdealers in Canada from 4 cents to 5 cents per pound. When implemented, this change will establish a uniform rate for foreign publications irrespective of whether the mailing is made by the publisher or his newsdealer in Canada. The change will produce some additional revenue but is actually designed to produce a more simplified rate structure.

A change having an opposite affect on revenues is represented by the decision to terminate the 4 cents per pound rate charged for second class mail destined to post offices served by Air Stage Services. This rate which has no legal basis, is very difficult to administer. The reduction in revenue, estimated from \$18,000 to \$24,000 per annum, will be partly offset by the savings in the simplification of our operating procedures.

The Royal Commission on Publications recommended that in the matter of second class mail the United States be asked for compensation in the form of terminal payment. It is estimated that Canada handles a larger volume of second class mail of United States origin than the volume of Canadian mail handled by the United States postal service. Terminal payments were recommended as a method of adjusting this imbalance.

From a strictly procedural point of view such a system could be established provided the United States was favourable, which is very doubtful. Article 16 of the special Postal Convention between our two countries stipulates that any matter not specifically provided for is to be governed by the Acts of the Universal Postal Union. The Acts of the U.P.U. provide for the delivery of second class mail without the collection of terminal charges. Whenever this question was raised at Postal Congresses it was rejected as being contrary to the fundamental maxim of the U.P.U.

From the operating point of view the establishment of statistical checks would involve a complicated and costly system. Since our second class mail exchanges fluctuated, statistical checks might not



be an entirely satisfactory method of measurement. For the present, therefore, this recommendation is being deferred.

The other main recommendations of the Commission propose (1) the repeal of the local delivery rates on second class mail and (2) free mailing privileges throughout Canada for the first 5,000 copies per issue of the non-profit, cultural and "little magazines". It is estimated that the adoption of these recommendations would reduce our revenue by approximately \$484,000 per annum.

It is also proposed to abolish the 2 cent rate on publications issued less frequently than once a month but not less frequently than quarterly. This change would involve a slight reduction in revenue and is designed primarily to simplify our complicated second class mail rate structure.

All these proposals involve the amendment of the Post Office Act. A Bill incorporating the changes was actually introduced during the last session and received first reading on April 18, 1962, but no further action was taken during that session. The Bill may be reintroduced during the present session.

I would like to mention that in view of the continuing heavy operating losses on second class mail it was considered advisable to institute a Departmental study of the second class mail rates including a review and a simplification of the rate structure. The results of this study are expected in the near future and every consideration will be given to rate changes that will not only simplify the rate structure but also increase postal revenue.

Since receipt of the above information from the Deputy Postmaster General, the following developments have taken place:

- (a) the additional revenue arising from the increase in the "Mailing in Canada" rate to 5 cents per pound which was expected to amount to \$1 $\frac{3}{4}$  million dollars annually is actually amounting to about \$1 $\frac{1}{4}$  million;
- (b) the proposed increase from 4 cents to 5 cents per pound of foreign publications mailed by newsdealers in Canada was implemented in January 1963 and is realizing increased revenue amounting to about \$7,500 per annum;
- (c) the Bill incorporating certain changes in rates recommended by the Royal Commission on Publications which received first reading on April 18, 1962 but was not further dealt with prior to dissolution has not been re-introduced;
- (d) the departmental study of second class mail rates has been completed and a report has been made to the Deputy Minister.

The revisions of second class postage rates referred to by the Deputy Postmaster General are confined to two areas, as follows:

- (1) foreign publications mailed in Canada by choice of the foreign publishers; and
- (2) simplification of the rate structure which is most desirable but which may result in a reduction rather than an increase in revenue.

These revisions might result in increased annual revenues in the neighbourhood of \$1 million which obviously will not be sufficient to cover the further increase in the cost of handling second class mail because the annual deficit is now estimated to exceed \$25 million (compared with \$22 million in 1958-59). It seems apparent that this deficit cannot be reduced without a general upward revision of rates of postage on Canadian publications.

With regard to the increase in revenue which has been achieved, it should be kept in mind that the revenue from foreign publications mailed in Canada (instead of in the country of publication) which amounted to \$2.2 million in the 12 months ended July 31, 1962 and dropped to \$1.9 million in the succeeding 12 months, is dependent on the foreign publishers continuing to find it to their advantage to mail in Canada. Should this advantage disappear, the revenue would cease without any corresponding reduction in costs.

It is of interest to note that the Royal Commission on Government Organization, when commenting on the Post Office in Volume 3 of its Reports (Report 17, Chapter 4) published on January 7, 1963, recommends that "an annual grant be made by Parliament in amount sufficient to cover the costs of the Post Office in handling second class mail, to the extent that such exceed postal revenues arising from the rates set by Parliament".

#### INTEREST ON TEMPORARY INVESTMENT OF UNIVERSITY GRANTS FUNDS

In paragraph 11 of its Report, the Committee commented upon the question of interest on funds temporarily invested by the Canadian Universities Foundation (between the date of receipt of funds from the Minister of Finance and the date of the payment of grants to universities). The Committee noted that it had been informed that the opinion of the law officers was that, on balance, the money ought to be returned to the Receiver General and a formal demand had been made to the Canadian Universities Foundation requesting the return of approximately \$109,000. The Committee further noted that it had been informed that, following representations by the Foundation, the matter had again been referred to the law officers for a further opinion and the Committee requested the Deputy Minister of Finance "to report to it next year on the situation that may then exist with respect to this matter".

*Comment by the Auditor General:* The Deputy Minister of Finance informed me on March 19, 1962 that the Foundation's solicitors had advised it that "the claim of the Crown should be firmly resisted" as it was their opinion that the Crown did not possess "a beneficial interest in the moneys so invested". On the other hand, the Deputy Attorney General, after considering this advice, remained of the opinion "that the interest in question...is properly payable to the Receiver General of Canada". The Deputy Minister stated that it had been decided by the Cabinet that Parliament should be asked to approve of the Crown withdrawing its claim, which would then be written off along with other debts due to the Crown when Parliament had passed Vote 710 of the Further Supplementary Estimates, 1961-62, authorizing the deletion from the accounts of certain debts due, and claims by Her Majesty.

In the discussion of Vote 710 in Committee of Supply on March 30, 1962 (Debates, pp. 2345-7) no reference was made to the account standing in the name of the Canadian Universities Foundation. This account was included in a listing of accounts to be deleted, in the following terms:

#### Finance—

Debt resulting from interest earned prior to distribution  
by the Canadian Universities Foundation on funds granted  
by the Crown to Canadian Universities (1 debt) .....\$ 109,651

However, the listing was not tabled in the House until after Vote 710 had been considered in Committee of Supply.

#### CROWN ASSETS DISPOSAL CORPORATION

In paragraph 19 of its Report the Committee stated that it would watch with particular interest the result of the inquiry by the Royal Commission on

Government Organization as to whether the disposal of Crown assets could be more efficiently performed by a division of the Department of Defence Production.

*Comment by the Auditor General:* In its report on "Purchasing and Supply" which was one of a number of reports relating to "Supporting Services for Government" contained in Volume 2 of its Reports, the Royal Commission on Government Organization concluded that "disposal of surplus equipment, materials and supplies by government departments and agencies through the medium of Crown Assets Disposal Corporation is less effective and less economical than it should be". Accordingly the Commission recommended that "Crown Assets Disposal Corporation be operated as a division of the proposed Department of Purchasing and Supply, and that its personnel and methods of operation be integrated as closely as possible with other functions of the Department".

#### PRAIRIE FARM EMERGENCY FUND DEFICIT

In paragraph 27 of its Report, the Committee, having regard for the fact that the Agricultural Stabilization Act provides for the inclusion of an item in the Estimates to cover the net operating loss of the Agricultural Stabilization Board in any year, recommended:

"that consideration be given to amending the Prairie Farm Assistance Act to provide similarly for the inclusion of an item in the Estimates to cover any deficit that might be anticipated in the operation of the Prairie Farm Emergency Fund."

*Comment by the Auditor General:* In paragraph 56 of the Auditor General's 1961 Report, reference is made to our understanding that the Department of Agriculture had established a committee to study various matters relating to the Prairie Farm Emergency Fund, including consideration of the recommendation quoted above.

In response to a request that I be informed of the outcome of this study and what was being planned as a result, the Deputy Minister of Agriculture informed me on March 15, 1962 that:

careful consideration was given to the implementation of the recommendation, but it is not considered appropriate to attempt to introduce an amendment to the Prairie Farm Assistance Act at this session of Parliament. The matter will, however, receive continuing attention with the purpose of recommending the amendment to the Act at some future date.

Early in 1963 the Department gave consideration to proposing an amendment to the Prairie Farm Assistance Act whereby provision in the Estimates would be required to recoup deficits incurred in the Prairie Farm Emergency Fund, and a letter dated March 22, 1963, addressed to the Secretary of the Treasury Board by the Deputy Minister of Agriculture, included the following:

... the purpose of the Auditor General's recommendation for parliamentary review is appreciated, and provision for this will be included when other proposals for amendments to the Act are presented for ministerial consideration.

The Committee's recommendation was based on the recommendation previously made in the Auditor General's 1960 Report, and referred to in the Deputy Minister's letter.



## DELAY IN ACCOUNTING FOR COUNTERPART FUNDS

In paragraph 29 of its Report the Committee recommended:

that efforts be made by the Director General, External Aid, to obtain from the various recipient countries, on a reasonably current basis, the audit certificates called for by the agreements, and requests the Auditor General to report on the results in due course.

*Comment by the Auditor General:* In February 1962 I wrote to the Director General asking to be informed of the efforts that had been made in recent months to obtain the certificates in question, and to be advised of the current situation. The Director General replied in the same month, and followed this with a second letter dated January 2, 1963, which stated, in part:

Using rounded out figures, the accounts of the External Aid Office show that at March 31, 1962 a total of \$180,296,000 had been expended on commodities calling for the establishment of counterpart funds, and up to the present date audit certificates signed by the Auditors General of the recipient countries have been received to the extent of \$49,888,000 leaving a balance of \$130,408,000 not certified. The corresponding balance at the close of the preceding year was \$118,404,000.

Figures showing the extent to which expenditures made to March 31, 1963, on commodities calling for the establishment of counterpart funds, had been accounted for by audit certificates signed by the Auditors General of the recipient countries are still in course of preparation. We are currently collaborating with the External Aid Office in this connection and the figures are expected to be available shortly.

## EXPENDITURE CHARGES TO ADJUST INSURANCE ACCOUNT BALANCES

This matter was dealt with in paragraphs 30 to 33 of the Committee's report as follows:

30. The Committee noted the Auditor General's comment that in the absence of interest credits to the accounts for the Civil Service Insurance Fund, Returned Soldiers Insurance Fund, and Veterans Insurance Fund, the estimated actuarial deficits which arise in the accounts are made good by means of annual bookkeeping charges to expenditure, with the charges being reported as special 'statutory' items in the Public Accounts, although 'in no case does the governing legislation contain provision for the making of such charges'.

31. The Comptroller of the Treasury was invited to comment on this matter and stated that the Solicitor to the Treasury had been asked whether or not, in the case of the Civil Service Insurance Fund, an amendment to the governing Act or an item in the Estimates would be necessary or if a regulation issued under section 18 of the Act would be sufficient to make the entries. The Comptroller presented an opinion from the Solicitor that "the Governor in Council could authorize a book-keeping entry to be made from time to time, crediting the account with the amount necessary to make the balance in the account equal to the estimated liability, under the authority of paragraph (f) of section 18 of the Civil Service Insurance Act.

32. The Auditor General was invited to file a statement enlarging on his view. In this statement he quoted paragraph (f) of section 18 of the Civil Service Insurance Act, as follows:

The Governor in Council may, for the purposes of this Act, from time to time make regulations for

(f) prescribing the accounts to be kept and their management

and expressed it as his view that this was simply a general provision—not a clear-cut authority to write up an understated liability by charging expenditure.

33. The Committee recommends, that the Minister of Finance give further consideration to the appropriateness of the existing statutory authority.”

*Comment by the Auditor General:* On March 6, 1962 the Deputy Minister of Finance provided me with a copy of a memorandum on this subject, which concluded with the following observation:

I consider that we have the necessary authority for the accounting action that has been taken. However, as this question has now been raised by the Committee, we are requesting a legal opinion from the Deputy Attorney General.

On August 8, 1962 I was provided by the Deputy Minister of Finance with a copy of an opinion given by the Deputy Attorney General on April 5, 1962 which included the following:

The Civil Service Insurance Act authorizes the payment out of the Consolidated Revenue Fund of all moneys payable under that Act. No further Parliamentary authority is required and no action taken by the Minister of Finance in relation to the Accounts of Canada can or does have the effect of altering the existing authority to make payments out of the Consolidated Revenue Fund. Quite apart from any regulations under section 18 (f) of the Civil Service Insurance Act, I am of the view that the Financial Administration Act is itself sufficient authority for keeping the accounts in relation to the Civil Service Insurance Fund in the manner prescribed by those regulations.

#### PROCEEDS OF FINES NOT ACCOUNTED FOR

In paragraph 35 of its Report, the Committee requested that the Deputy Minister of Fisheries “report to next year’s Committee on the then current situation” with respect to the failure of a former magistrate to remit funds totalling approximately \$2,400, imposed and collected by him during the years 1956 to 1958 for offences under the Fisheries Act and regulations made thereunder.

*Comment by the Auditor General:* The Deputy Minister of Fisheries provided me with a copy of a memorandum dated March 20, 1962 which noted that judgment had been obtained in the amount of \$2,370 with taxed costs of \$103, making a total indebtedness of \$2,473. The memorandum also noted that an arrangement had been made, through the Department of Justice, for the payment of \$50 per month by the debtor.

Only two payments, one in September and one in October, 1961 have been made under the arrangement. Despite this, the outstanding balance as at September 30, 1963 had been reduced to \$1,161, mainly through action taken by the Department under section 95 of the Financial Administration Act, which provides that amounts due on other account to a debtor by the Government of Canada may be set off against his indebtedness. As the Department expects that the account will be cleared in due course by this means, the undertaking to pay \$50 per month is not now being pressed.

#### CONSTRUCTION COST OF HOUSE AT R.C.A.F. STATION

In paragraph 39 of its Report, the Committee recommended:

that when authorization is given by the Treasury Board for a project to cost a stated estimated amount, it should be clearly understood by all

concerned that the amount authorized is intended to include not only cash outlays but also the cost of service labour, materials supplied from stores, service equipment utilized and departmental supervision directly associated with the work—and departmental submissions to Treasury Board should clearly indicate that all such costs have been included in the estimate.

*Comment by the Auditor General:* On February 14, 1962 I was provided with information by the Deputy Minister of National Defence which indicated that current practice in the Department's Construction and Engineering Branch is along the lines proposed by the Committee.

#### NON-RECOVERY OF EXPENSES INCURRED IN LENDING CROWN-OWNED PROPERTY

In paragraph 40 of its Report, the Committee noted that, to the extent of \$4,925, expenses that had been incurred by the Department of National Defence in connection with an informal arrangement to lend landing barges to the Canadian National Exhibition Association had not been recovered from the Association, and in paragraph 42 the Committee recommended:

that where public property is being loaned to private organizations or individuals, there be a formal written agreement setting forth the terms under which the loan is being made.

In paragraph 42 the Committee requested that the Deputy Minister of National Defence report to next year's Committee regarding the final result of the matter.

*Comment by the Auditor General:* The Deputy Minister of National Defence informed me on February 14, 1962 as follows:

The administrative arrangements under which public property is loaned to private organizations or individuals were reviewed in light of the Committee's recommendation. This resulted in amendments to the regulations being issued on July 24, 1961, to implement the recommendation and to emphasize that approving authorities must obtain written agreement to the terms of a loan before material is issued.

In March 1963 we were advised by the Department that recovery had been effected from the Canadian National Exhibition and the Department of Transport.

#### SUBSIDIZATION OF MEDICAL STUDENT OFFICERS

In paragraph 45 of its Report, the Committee, in relation to this question, recommended:

that the recovery of the cost of subsidization should be in cash unless the circumstances are exceptional. In such circumstances, the period of payment should not extend beyond three years. The Committee is also of the opinion that when an officer is released under an instalment payment arrangement, any amount of deferred pay that had accumulated to his credit should be applied against the indebtedness.

*Comment by the Auditor General:* The Deputy Minister of National Defence advised me on April 13, 1962 that a directive on this subject had been issued to all Departmental Personnel Directorates, and provided:

- (1) When under paragraphs (5), (6) and (7) of QR Article 15.18 an officer is required to reimburse the Crown for the cost of his subsidized training, reimbursement is to be made in cash at the time of release.
- (2) In a case of extreme hardship, the Minister may be requested to authorize the repayments by:



- (a) withholding of pay and allowances which would ordinarily be payable at the date of release;
- (b) application as part payment of any deferred pay or cash benefits under the CFSA;
- (c) receipt of as large a cash payment as the officer can reasonably be expected to make; and
- (d) repayment of the balance due by monthly instalments—the number of instalments to be determined after consideration of the officer's financial condition but in no case to be more than thirty-six.

This would seem to provide a satisfactory solution to the problem.

#### UNUSUAL EXERCISE OF EXECUTIVE DISCRETION IN AWARDING OF ANNUITY UNDER CANADIAN FORCES SUPERANNUATION ACT

The Committee recommended in paragraph 47 of its Report:

that consideration be given to amending the wording of subsection (4) of section 10 of the Canadian Forces Superannuation Act in such a way that in no case should a pension be awarded to a person released on grounds of inefficiency that would be greater than that to which he would have been entitled had he retired voluntarily.

*Comment by the Auditor General:* In advising me on February 14, 1962 of the action taken in response to this recommendation, the Deputy Minister of National Defence stated as follows:

The policy guide has been revised to ensure that, insofar as the present provisions of the Canadian Forces Superannuation Act permit, no awards will be made to persons released on grounds of inefficiency that would be greater than those awarded in connection with voluntary retirement.

The question of a suitable amendment to the Canadian Forces Superannuation Act to completely eliminate anomalies is now under study and will be proposed when that Act is next amended.

The action taken and in prospect would appear to meet the Committee's recommendation.

#### INTERIM ALLOWANCES FOR LODGINGS AND MEALS ON TRANSFER

In paragraph 50 of its Report, the Committee recommended, following consideration of an allowance paid by the Department of National Defence for lodging and meals (while his house was being redecorated following his return to Canada) to a member of the Armed Services who had rented his home during a tour of duty outside Canada;

that in future, expenses incurred under similar circumstances, should be treated as personal expenses with no reimbursement being made out of public funds and that the regulations be clarified accordingly.

*Comment by the Auditor General:* In August 1962 revised regulations were promulgated by the three Services with a view to giving effect, in principle, to the above-noted recommendation of the Committee, by providing that when interim lodgings and meals are required at the new place of duty solely as a result of necessary major repairs or redecoration to a house which was owned by the member prior to his arrival at his place of duty and occupied previously by him, approval shall be denied except where most unusual circumstances prevail in which case the claim may be submitted to Headquarters for consideration.

## REIMBURSEMENT TO SERVICEMEN FOR LEASE TERMINATION PAYMENTS

The Committee included the following observation in paragraph 52 of its Report:

The Committee was informed that, although circumstances might not be identical, the lease form used by officers of the R.C.M.P. provides for only a 30-day termination clause. Having this in mind, and believing that the situation with regard to rental accommodation has improved significantly in recent years, the Committee recommends, that the maximum period with respect to which reimbursement be made to members of the Forces, in the circumstances mentioned, be reduced to the equivalent of one month's rent in future.

*Comment by the Auditor General:* In response to my request to be informed of the action taken by the Department with regard to the foregoing recommendation, the Deputy Minister advised on February 14, 1962 as follows:

A review of claims during the period April to September, 1961 has been made and it has been established that only a minority of service personnel are involved in the maximum payments for lease termination. There were 2,684 claims paid during this period at an average cost of approximately \$110 per claim. This figure appears to be reasonably close to one month's average rent and it is considered that there is little abuse under the present regulations. It is considered desirable to retain the maximum period of three months to protect the small number of service personnel who may require it.

While the Committee's recommendation to limit reimbursement for lease termination payments to one month's rent might be imposed by departmental regulation, the Judge Advocate General has pointed out that landlords have a legal right to expect certain compensation for termination of a lease before its normal expiration period and that the Crown is justified in reimbursing servicemen in this regard as the expense involved is a legitimate cost of a move.

The possibility of insisting that leases involving servicemen contain a clause requiring only 30 days notice of lease termination has been examined. The Judge Advocate General has given the opinion on this question that even the Federal Parliament has not the constitutional authority to enact such a provision.

To ensure that personnel are fully conversant with the main aspects of obtaining accommodation on the civilian market, a Tri-Service Order is being prepared to provide a guide for Unit Commanding Officers in counselling incoming personnel.

During our audit of 1961-62 and 1962-63 accounts, numerous cases were noted where reimbursement continued to be made on the basis of the maximum of three months rent permitted by existing regulations.

## NATIONAL DEFENCE ADMINISTRATION REGULATIONS AND PROCEDURES

In paragraph 53 of its Report the Committee referred to the subject matter of all the paragraphs contained in the Auditor General's Report bearing on the Department of National Defence and made the following observation: "On the basis of its experience in prior years with armed forces expenditures, and on the basis of the evidence at this year's meetings, the Committee has noted with concern the continuing tendency on the part of some branches of the armed services toward incurring ill considered and wasteful expenditures. Notwithstanding the frank and helpful testimony by the Deputy Minister of National Defence, the Committee recommends,

that the Minister of National Defence enquire into this situation with a view to assuring that there is an appropriate improvement in administrative regulations and procedures."

*Comment by the Auditor General:* The Minister of National Defence was prompt in issuing a directive to the Chiefs of Staff stressing the importance of good administrative practices throughout the three Services and requesting that they examine the observations made by the Committee and make any necessary changes in regulations and procedures to give effect to the views of the Committee.

During 1961-62 and 1962-63 instances were observed in the audit where the application of certain administrative regulations relating to the Armed Forces produced results that were uneconomical or were otherwise unsatisfactory from the audit point of view. In accordance with our usual practice, all such instances have continued to be drawn to the attention of the Department and, generally, the Services concerned have taken action to amend the regulations or otherwise correct the conditions reported upon.

#### DETERMINATION OF "SALE PRICE" FOR SALES TAX PURPOSES

Paragraph 54 of the Committee's Report referred to the long-established administrative practice of computing sales tax on less than the sale price when goods are sold directly to retailers or consumers, and by wholesalers directly to consumers; and in paragraph 56 the Committee recommended "that the existing method of valuation be provided with statutory sanction".

*Comment by the Auditor General:* I wrote to the Deputy Minister of National Revenue, Customs and Excise, asking to be informed as to what progress had been made with regard to this matter, and his reply on February 5, 1962 included the following:

You will recall that there is a difference of opinion as to whether or not any statutory enactment is necessary or desirable in this regard, but if it is decided to take any action I will be pleased to apprise you in due course.

I have, however, received no further communication on this matter from the Deputy Minister.

The Act has not been amended in this respect. However, the Royal Commission on Taxation, established on September 25, 1962, has terms of reference sufficiently broad to permit consideration of this matter.

#### CONTRACTS WITH COLOMBO PLAN EXPERTS

In paragraph 58 of its Report, the Committee referred to the practice of establishing the fees of Colombo Plan experts on the assumption that the income therefrom will be subject to tax, and then seeking to recover portions of the fees in those instances where the income is not subject to tax—and in paragraph 59 of the Committee recommended:

that consideration be given to revising the present practice to one under which lower fees would be paid to the experts in the first instance, on the assumption that income tax would ordinarily not have to be paid by them, and reimbursement would be made in a case where it transpires that the expert does in fact have to pay income tax.

*Comment by the Auditor General:* The Director General, External Aid, informed me on February 13, 1962 that, following detailed discussions, agreement was reached on changes which resulted in a system of offering advisers fees on the following basis:

- (a) Persons recruited for periods of service abroad anticipated to exceed 183 calendar days are offered a fee net of income tax on



the assumption that income tax would ordinarily not have to be paid by them. Should it transpire that the adviser is taxable, an appropriate amount in relation to the emoluments stipulated in the adviser's agreement with this Office is payable as reimbursement from aid programme funds.

- (b) Advisers whose assignments are for periods of 182 days or less receive a fee assumed to be subject to taxation, the adviser being responsible for direct payment to the Department of National Revenue of such taxes as may be levied.

This would seem to provide a satisfactory solution to the problem.

#### AWARDS UNDER THE PENSION ACT

In paragraph 62 of its Report, the Committee referred to several classes of cases of awards under the Pension Act where it appeared that unusual administrative practices had developed, and it recommended:

- (a) that in any case in which a pension overpayment has resulted due to failure of the pensioner to disclose income, the amount of the overpayment should be made a matter of record in the accounts, and deleted therefrom only with appropriate statutory authority.
- (b) that in determining the amount of pension to be awarded dependent parents, the Commission should recognize the responsibility of the surviving children to assist their parents, and take into consideration their ability to do so;
- (c) that, having regard for subsection (2) of section 40 of the Pension Act, consideration should be given by the Canadian Pension Commission to the legality of cases where, as mentioned in the final subparagraph of paragraph 72 of the Auditor General's Report, one death can result in payments being made concurrently to a widow (under section 37), children (under section 26) and parents (under section 38).

*Comment by the Auditor General:* I wrote to the Chairman of the Canadian Pension Commission on February 1, 1962 asking to be informed of the steps taken by the Commission in relation to the above recommendations of the Committee.

The Chairman advised me concerning recommendation (a) above that when the Commission rules there is an overpayment this is made a matter of record in the accounts and, if uncollectable, the amount is deleted therefrom only with appropriate statutory authority. However, no action has been taken to record and collect overpayments in the type of case referred to in our 1960 Report (paragraph 72) as follows:

Since the amount awarded to an applicant in a dependent condition is based upon the additional income he requires to maintain himself, it follows that if the applicant had failed to disclose income, this would result in an overpayment. However, in a number of instances in which undisclosed income was noted and drawn to the attention of the Commission, the pension was simply adjusted currently and no overpayment was considered as having occurred.

With respect to recommendation (b), the pertinent section of the Act (section 38(6)) was amended in 1961 to provide that the Commission might deem any children residing with the "dependent parent" to be contributing to his or her support not less than ten dollars a month, but the Commission feels that there is no obligation for them to take into account the ability of other children to assist and no cases have been observed where this was done.

Concerning recommendation (c), the Commission reports that it has carefully considered the legality of cases where one death results in more than one pension and is of the opinion that such payments are legal and in accord with the Act. It pointed out that the present section 40 was contained in the original Act of 1919 and has continued unchanged since then although certain other sections, such as 38(2), were inserted to make provision for classes which were otherwise excluded. The Commission is of the opinion that, as the Act provides definite authority for these pensions, the general directions of section 40 could not be considered to fetter sections 26, 37 or 38. It would seem that consideration should be given to amending the legislation with a view to eliminating these inconsistencies.

#### PAYMENTS TO CIVIL SERVANTS ADDITIONAL TO SALARY

In paragraph 65 of its Report, the Committee referred to the practice of relying on section 60 of the Civil Service Act to exempt a position from the operation of section 16 of the Act in order to make a payment to a public officer additional to his salary. In view of the fact that an opinion of the Deputy Minister of Justice on the matter was given as long ago as March 23, 1948, the Committee recommended in paragraph 66 of its Report:

that the Civil Service Commission request another ruling from the Deputy Minister of Justice, unless it transpires that the new Civil Service Act clarifies the situation.

*Comment by the Auditor General:* In response to my enquiry as to whether another ruling on the question had been requested by the Civil Service Commission, I was informed by the Chairman of the Commission on February 2, 1962 as follows:

With reference to your letter of February 1st about the recommendation of the Public Accounts Committee that the Civil Service Commission obtain another ruling from the Deputy Minister of Justice on the practice of using Section 60 of the Civil Service Act to exempt a position from the operation of Section 16, the Commission took note of the Committee's proviso—'unless it transpires that the new Civil Service Act clarifies the situation'—and in view of the terms of Section 14 of the new Civil Service Act, to become effective on April 1st of this year, did not request another ruling from the Deputy Minister of Justice.

The new Civil Service Act came into force on April 1, 1962 and the Audit Office is closely watching the application being given to sections that might have a bearing on this matter. No similar cases were noted in the audit of the 1962-63 accounts and we would suggest to the Committee that further consideration need not be given to the matter unless we reintroduce it in a future Report.

#### UNAUTHORIZED SALARY PAYMENTS BEYOND RETIREMENT AGE

In paragraph 68 of its Report, the Committee recommended:

that consideration be given to requiring departments, by regulation, to verify the age of their employees before they near retirement age, and prescribing some form of penalty to be assessed against employees who have deliberately concealed their age while continuing to work beyond the normal retirement age without appropriate authority.

*Comment by the Auditor General:* The Deputy Minister of Finance provided me with a memorandum dated March 14, 1962 which included reference to the Public Service Superannuation Regulations promulgated by Order in Council P.C. 1962-137 of February 1, 1962, and commented that "it is hoped by all con-

cerned that the application of these new regulations will reduce to a minimum the type of case which was the reason for this recommendation". While the first point in the Committee's recommendation has thus been dealt with, the Deputy Minister's memorandum noted that no action had been taken towards prescribing a penalty to be assessed against employees who deliberately conceal their age.

#### LOSSES REPORTED IN THE PUBLIC ACCOUNTS

In paragraph 72 of its Report the Committee referred to the Auditor General's comment that the annual statement of losses published in the Public Accounts, as required by section 98 of the Financial Administration Act, did not include all losses suffered by the Post Office Department during the year. In paragraph 73 the Committee recommended:

that, in future, statements be included annually in the Public Accounts, listing Post Office losses and showing recoveries effected in a manner similar to other departments.

*Comment by the Auditor General:* This recommendation was accepted by the Department and all Post Office losses which had not been recovered or reported previously were included in the listing of losses in the Public Accounts for the first time in 1960-61.

#### RESPONSIBILITY FOR LOSS OF PUBLIC FUNDS

Paragraph 74 of the Committee's Report contains a reference to an amendment that was being considered by the Department of National Defence to its regulations "to make it plain that an officer or man who has public funds in his custody is responsible to make good any loss that may occur, unless he is able to give a satisfactory explanation of the loss". In paragraph 75 the view was expressed that such an amendment seems to be an entirely reasonable one, and the Committee recommended "that appropriate action be taken by the Department without further delay".

*Comment by the Auditor General:* It was our understanding that the regulations were to be amended to make it clear that an officer or man who had a deficiency in public moneys in his custody for which he could give no satisfactory explanation would be liable to reimburse the Crown for the financial loss incurred.

While certain routine amendments were made to the regulations in November 1961, there was no change in the matter of holding a custodian responsible for moneys in his care. The regulations still provide that an officer or man shall make reimbursement to the Crown only when the Crown has proved that the loss of public funds is the result of a wilful act or negligence on his part. We do not consider that this meets the Committee's recommendation.

#### UNUSUAL PAYMENT FROM A SPECIAL ACCOUNT OF CANADIAN WHEAT BOARD

In paragraph 76 of its Report, the Committee stated that it was glad to learn that the Board of Grain Commissioners is now moving to have all elevators carry all-risk insurance which would include coverage for unusual eventualities such as the loss suffered in 1959-60 when substantial quantities of wheat, oats and barley were tumbled into Lake Superior.

*Comment by the Auditor General:* The Deputy Minister of Agriculture informed me on March 15, 1962 that "all public terminal elevators, except those operated by the National Grain Company and the Manitoba, Saskatchewan and Alberta Wheat Pools, are now carrying all-risk insurance".



## ADVANCES TO THE EXCHANGE FUND ACCOUNT

In paragraph 77 of the Committee's Report, reference is made to the \$136 million net loss at March 31, 1960 on dealings in gold and foreign securities, and on revaluations of gold and currencies, since the establishment of the Exchange Fund Account—and in paragraph 78 the Committee recommended:

that the Minister of Finance be requested to submit to the Committee at the next session a report dealing with the desirability of writing off the amount in the accounts, with appropriate parliamentary authority, for example against the reserve for losses on realization of assets. The importance of the problem is such that your Committee believes that at the next session of Parliament it should give special attention to the problem, including the question of transferring annually to the Consolidated Revenue Fund the realized profits or losses from trading operations and re-evaluation of holdings.

*Comment by the Auditor General:* As the exchange value of the U.S. dollar equalled \$1.05 Canadian (i.e., the Canadian dollar approximated \$0.95 U.S.) at close of business on March 31, 1962, compared with an exchange value of \$0.99 Canadian a year earlier, a substantial exchange gain (unrealized) arose in valuing the Fund's U.S. dollar holdings, which had the effect of reducing the accumulated deficiency to \$33,310,000 at that date. The subsequent official revaluation of the Canadian dollar at \$0.925 U.S. on May 2, 1962 has had the effect of eliminating the deficiency entirely.

We remain of the opinion that, in order to prevent any future accumulation of losses due to dealings in gold and foreign currencies and securities, provision should be made for transferring annually to the Consolidated Revenue Fund the realized profits or losses from trading operations and re-evaluation of holdings of gold and foreign currencies.

I have not been informed by the Department of Finance regarding its views on this matter.

## UNEMPLOYMENT INSURANCE FUND

In paragraph 81 of its Report, the Committee recommended:

that the Auditor General give consideration to the advisability of increasing the scope of his examination of unemployment insurance fund transactions in the field.

In paragraph 82 the Committee made reference to the fact that the Unemployment Insurance Commission is not required by statute to prepare annual financial statements subject to audit, and the Committee recommended:

that the preparation of such statements, along the lines of those published at page P-19 of the Public Accounts for 1959-60, be made a statutory responsibility of the Commission, and that they be required to be reported upon by the Auditor General.

*Comment by the Auditor General:* In paragraph 116 of the Auditor General's 1961 Report it is stated that "a moderate increase has taken place, and is continuing in the number of field examinations made by the Audit Office of regional and local offices of the Unemployment Insurance Commission". In the 1962 report (paragraph 72) we reported that, by reason of a staff shortage, it had not been possible to extend this increase in our field audit work further during 1961-62. Although a staff shortage still existed, arrangements were nevertheless made to increase the number of offices visited in 1962-63, by curtailing other work.

No action has been taken in response to the recommendation of the Committee that the preparation of the statements of the Fund be made a statutory

responsibility of the Commission and that they be required to be reported upon by the Auditor General. However, pending the provision of such statutory direction, the Chief Commissioner of the Unemployment Insurance Commission has informed me of the Commission's readiness to present annual financial statements along the lines suggested and to record his approval thereon, and for my part I have examined the statement with respect to the 1961-62 and 1962-63 fiscal years and have appended my certificate to each.

It is of interest to note that the Report of the Committee of Inquiry into the Unemployment Insurance Act, tabled on December 20, 1962, states in its Conclusions and Recommendations (paragraph 172) that:

we think it would be desirable that there be a statutory requirement on the Unemployment Insurance Commission to prepare a financial statement showing in a full and complete manner the condition of the Fund at the end of each fiscal year and the income and expenditure occurring during the year. We think also that this statement should be certified by the Auditor General and should be placed before Parliament as soon as may conveniently be done following the date of its preparation.

#### CROWN CORPORATIONS

Paragraph 86 of the Report noted that "the Committee was glad to be informed by the Auditor General that he intends to include in his future reports to the House of Commons more detailed information covering the financial operations, and related data, of Crown corporations".

*Comment by the Auditor General:* The section dealing with Crown corporations in the Auditor General's Reports for 1960-61 and 1961-62 provide more detailed information than in preceding years including, with respect to each corporation: comments regarding the Crown's equity therein; a summary of operations for the year in comparison with the preceding year; and any other matters which it was felt might be of interest to the House. A similar approach will be followed in future Reports.

#### DEPARTMENTAL OPERATING ACTIVITIES

Paragraph 87 of the Committee's Report reads:

The Committee feels that it would be desirable, in order that members have a clear understanding of the true financial results of departmental trading or servicing activities, such as those of the Department of Public Printing and Stationery and airport operations of the Department of Transport were overall financial statements included in the Public Accounts without undue cost or staff increases.

*Comment by the Auditor General:* I wrote to each of the departments responsible for the following departmental operating activities:

Agricultural commodities stabilization activities,  
Board of Grain Commissioners,  
Canadian Government Elevators,  
National Film Board,  
Post Office activities,  
Public printing and stationery activities,  
Royal Canadian Mint, and  
Airport operations

quoting the above paragraph of the Committee's Report and requesting to be informed of the extent to which they expected that financial statements would be prepared for the year ended March 31, 1962 along the lines suggested.

The replies received from several of the departments indicated reluctance to take the lead in this respect in 1961-62, in the absence of encouragement from the Treasury Board and little progress was therefore made. The Department of Transport, however, prepared a consolidated statement of civil aviation airport operating revenues and expenditures for 16 major airports for the year ended March 31, 1962, which was presented as an appendix to the departmental section of Volume II of the Public Accounts for that year. This statement, which accounted for approximately 85% of the Department's revenue from the activity in question, was on the accrual basis and included provision for depreciation of civil aviation capital facilities but not for certain other costs of an indirect nature.

It would be of material assistance were the Treasury Board to support the proposal in view of the important part that statements of this type could play in controlling costs, and having regard for the importance attached to the matter by the Public Accounts Committee. Such support was given in the case of one, at least, of the activities this year. Though not in time to be acted upon so far as the statements for 1962-63 were concerned, it is understood that the agency plans to give consideration to preparing its 1963-64 statements along the lines suggested. We shall continue our discussions with the departments concerned.

#### BOARD OF GRAIN COMMISSIONERS

In paragraph 88 of its Report, the Committee stated that it felt concerned that in each year since 1953-54 the expenditures of this activity had exceeded its revenues by more than \$1,000,000, and the Committee recommended "that steps be taken to bring revenues and expenditures into balance".

*Comment by the Auditor General:* I inquired of the Deputy Minister of Agriculture regarding the steps that had been taken in response to this recommendation and his reply, dated May 14, 1962 included the following:

The Canada Grain Act authorizes the Board of Grain Commissioners to make regulations fixing the fees payable for any service performed by its officers or employees. There is, however, no requirements of the Act that those fees shall cover the costs of providing the services. The level of the fees, therefore, rests with the discretion of the Board.

These services provided by the Board with respect to western grains are on all fours with similar grading and inspection services provided by this Department for a wide range of agricultural products. In all instances the statutes under which those services are provided contain authority, as does the Canada Grain Act, for the establishment of fees for services. The extent to which fees are levied varies with different commodities, but in none is the relation of revenue to expenditures as great as in the case of the Board of Grain Commissioners. Even in 1960-61, when the Board's revenues for inspection and weighing services were \$1,383,835 less than expenditures, sixty per cent of the expenditures were covered by revenue from inspection and weighing fees.

It is our view that these services provided by the Board of Grain Commissioners, and those of a similar nature provided for other products by this Department, are of the nature of a public service in the interests of Canadian agriculture. We had not felt that fees from these services should necessarily be expected to match expenditures. This, I believe, is consonant with the position of Parliament which placed no such requirement in the Canada Grain Act nor in similar statutes relating to other agricultural products.

There is, of course, another factor which has had to be considered in this matter in recent years. Any increase in the Board's fees for



inspection and weighing, to compensate for the substantial salary increases which have been authorized in recent years, would have been reflected to some extent in returns to producers for their grain. This has presented some difficulties during the period when the government finds it necessary to provide financial assistance in various forms to western grain producers. Regardless of this, however, and while we do not consider that the Board's operations should necessarily be self-supporting, we do recognize that the Board's revenues, historically, have closely matched expenditures and we are exploring with the Board the extent to which steps can be taken to reduce the present disparity.

On December 19, 1962 I again wrote to the Deputy Minister referring to the comment in his letter of May 14, 1962 that the Department was "exploring with the Board the extent to which steps can be taken to reduce the present disparity", and asking if he would provide me with any additional information that might now be available in this regard. I did not receive a reply to this further inquiry.

Having regard for the Committee's reference to there being an excess of expenditure over revenue of more than \$1,000,000 in each year since 1953-54, it is noted that in 1951-52 there was an excess of revenue over expenditure of \$108,000 and in 1952-53 one of \$351,000, while in 1953-54 there was a comparatively small excess of expenditure over revenue of \$188,000.

## SUBSIDIES

In paragraph 89 of its Fifth Report 1961, the Committee recommended: "that a study be made next year of the various classes of subsidies, or payments in the nature of subsidies, that are provided, directly or indirectly, out of public funds."

The Committee requested (paragraph 90) that the Minister of Finance prepare a statement "summarizing the various subsidies paid from public funds during the year, and showing the comparable amounts for the two preceding fiscal years".

*Comment by the Auditor General:* We understand that a statement giving information regarding subsidies provided for in Estimates has been prepared annually by the Department of Finance for internal purposes, and that such a statement, showing the amounts provided for in Estimates for 1963-64, and the comparable amounts for the two previous fiscal years, could be made available to the Committee by the Department on short notice.

## THE CANADA COUNCIL

### ALLOCATION OF PROFITS AND INTEREST EARNED ON UNIVERSITY CAPITAL GRANTS FUND

In paragraph 92 of its Fifth Report, 1961, the Committee noted that it had been informed that these profits and interest had not yet been allocated to the provinces or the universities, and the Committee recommended "that the Council seek to conclude this matter without further delay".

*Comment by the Auditor General:* The Council's Director advised me on December 17, 1962 as follows:

The Canada Council has had prominently in mind the views of the Standing Committee on Public Accounts and the great importance of coming to a decision about the manner in which the interest and profits arising from the investment of the University Capital Grants Fund should be distributed. The matter has been under discussion several

times at Council meetings, and a special committee of Council was appointed to give further consideration to the problem that has arisen. The problem consists in the conflicting legal advice that the Council has received concerning the interpretation of the Canada Council Act, Section 17, subsection 2(b). It is hoped that the problem can be resolved in the very near future and that the Council will find itself in a position to take action at one or other of the meetings it will hold in February, March and May of 1963.

In August 1963, following further efforts to resolve the problem presented in the interpretation of subsection (2) (b) of section 17 of the Canada Council Act, the Council re-confirmed a resolution passed at a February 1962 meeting, but which by later resolution was left in abeyance, that the 1956 census be accepted as a basis for distribution of the University Capital Grants Fund, and that "the 'hotch-pot' or trust fund approach be accepted for distribution of the income and profits on this total fund". The Council's officers were directed to prepare revised figures based on this approach and to notify member institutions of their entitlement.

The method of distribution which the Council has accepted may be described as follows: Grants made to a university are to be regarded as advances, bearing interest at an arbitrary rate. The university will be debited with such interest and the Fund will be credited with a corresponding amount, so that the Fund will be regarded as consisting of the remaining capital funds, the net profits on investment transactions, the interest actually earned on investments and the additional interest deemed to have been earned on grants made. Before a further grant is made to a university, the amount available to the province in which it is located would be determined by applying to the total amount of the Fund, so ascertained, the ratio of the provincial population to the total population, based on the last census prior to the enactment of the Canada Council Act. In calculating the amount still available to a university from this amount there would be deducted the aggregate of the grants actually made to the university and the amount of the interest deemed to have been earned on grants already paid to it.

#### NEED FOR INCREASED RESOURCES

In paragraph 93 of the Committee's Report, reference was made to the statement that had been made by the Chairman of the Council in the course of his evidence that, in the opinion of the Council, a minimum additional amount of annual income is needed to provide for more scholarships, fellowships and grants-in-aid—and the Committee recommended:

that this be made more widely known to corporations, individuals and foundations in Canada and abroad. It believes that strenuous efforts along these lines should be undertaken both by the Council as a body and by the individual members of the Council.

*Comment by the Auditor General:* The Council's Director informed me on December 17, 1962 that:

A special committee of The Canada Council has been created to consider ways and means of obtaining benefactions from individuals, corporations and other sources. A small brochure of 31 pages entitled 'Private Benefactors and the Canada Council' has been prepared and distributed widely to lawyers, legal firms, trust companies, banks and other interested persons and institutions. Approximately 12,000 have been sent out, and another 3,000 are available. This brochure explains the Council's financial needs, how benefactions may be made, and comments on section 21 of the Canada Council Act, which states that the Council 'shall be deemed to be a charitable organization'.

The Council is also attempting, by direct approach to some Canadian companies to persuade them to assume financial responsibility for certain projects that the Council wishes to have supported. The Canada Council Train is a case in point.

Consultations have been held with lawyers who have approached the Council on behalf of anonymous clients who have shown interest in the Council's work, and have expressed the desire to make benefactions to the Council in their wills. The Council has reason to be encouraged by these inquiries.

The Council has not yet made a firm decision to conduct a public campaign for funds as such campaigns are usually conceived. One difficulty that will have to be met and overcome in this connection is the necessity of avoiding a conflict of interest with the numerous organizations that the Council helps and that are accustomed annually to ask business houses, foundations and individuals for financial support. The Council has continued to urge these organizations to increase their receipts from such sources. Therefore the Council itself must be careful not to take steps that will divert to its own coffers money that in the past has been available to such organizations.

## POLYMER CORPORATION LIMITED

### AUDIT OF SUBSIDIARY COMPANY

In paragraph 99 of its Fifth Report 1961, the Committee expressed the opinion that since the Auditor General of Canada is the auditor of the parent Crown corporation, he should also be the auditor of the French subsidiary, and it recommended:

that the Auditor General be appointed either the auditor or joint auditor of Polymer Corporation Limited (SAF).

*Comment by the Auditor General:* On October 9, 1961 the Auditor General was appointed an auditor of the subsidiary company, along with the outside firm in France previously appointed.

## AUDITOR GENERAL'S OFFICE

After expressing its interest in the comprehensive audit approach which had been described by the Auditor General, the Committee recommended in its Third Report 1960, presented to the House of Commons on July 20, 1960, that, since the Auditor General is responsible only to Parliament, consideration should be given by the Special Committee on the Civil Service Act at the next Session of Parliament to "authorizing the Auditor General, with the approval of the Treasury Board, to recruit his own staff under a plan of organization necessary for the proper functioning of his Office and the establishment of rates of compensation for each class of position, having regard to the rates of compensation and conditions of employment for comparable positions in other branches of the public service and outside the public service."

No action was taken on this recommendation by the government or by the Special Committee on the Civil Service Act. The staff difficulties being encountered by the Auditor General's Office were again reviewed by the Committee during its meetings in 1961 which again reported to the House of Commons in its Fifth Report 1961, presented on July 1, 1961, as follows:

100. In its Third Report, 1960, the Committee recommended that consideration be given to authorizing the Auditor General, with the approval of the Treasury Board, to recruit his own staff under a plan of organization necessary for the proper functioning of his office.

101. The Committee was informed by the Auditor General that the government had approved an increase, from 141 to 159, in the establish-



ment of his Office for the fiscal year 1961-62. Discussions had been held in January, 1961, with officers of the Civil Service Commission with a view to having the extra positions filled as soon as possible after they became available on April 1, 1961. However, in spite of the best efforts of the Commission, while carrying out the normal recruitment procedures, only one of eight senior auditors required had reported for duty by June 12, 1961, and the total staff stood at only 139 at that date. The Committee is seriously concerned at this state of affairs which is not only subjecting the Audit Office to heavy pressure to complete its audit assignments but is affecting the scope of its work.

102. The Chairman of the Civil Service Commission informed the Committee that Clause 39 of the Bill to amend the Civil Service Act would give the Commission the power to delegate to any deputy head the right to select his employees, but he explained that he was unable to state to what extent this section, if enacted, would be used by the Commission.

103. The Auditor General, in the discharge of his broad auditing responsibilities, is responsible directly to Parliament. It is fundamental to the effective discharge of these responsibilities that the Auditor General's Office be strong, capable and efficient and equipped to operate in accordance with the high standards of independence and objectivity expected of professional accountants. The Committee therefore recommends,

that the Civil Service Commission either reach agreement with the Auditor General on some mutually satisfactory staff arrangement or that following enactment of the new Civil Service Act the Commission delegate to the Auditor General the right to select his employees in order that he may carry out the responsibilities placed on him by statute."

The comments made in my 1962 Report under the heading "Recruitment of Audit Office Staff" were the subject of comment in the House of Commons on January 22, 1963 (page 2980) and on January 23, 1963 (page 3034) and the matter was referred to the Public Accounts Committee. Following consideration of the matter the Committee included the following comments in its Second Report 1963, tabled in the House on February 5, 1963:

The Committee on two previous occasions has recommended that immediate attention be given to the problem of recruitment of staff by the Auditor General and sees no reason at the present time to alter its recommendations made in two previous years.

The Committee gave consideration to section 65 of the Financial Administration Act and to section 74 of the Civil Service Act.

The Committee is of the opinion that consideration be given to amending section 65 of the Financial Administration Act so as to authorize that the Auditor General recruit and manage his own staff with the approval of the Treasury Board and that in the meantime the Civil Service Commission should immediately reconsider its position with respect to section 74 of the Civil Service Act, since the Committee is convinced that the special character of the Auditor General's work requires that this be done.

*Comment by the Auditor General:* I must report that it has not been possible for me to reach agreement with the Civil Service Commission on any mutually satisfactory staff arrangement. For many years now the recruiting efforts of the Commission have not been successful in bringing the working staff up to the establishment authorized for the Office, the working staff of

157 on September 30, 1963 being 22 employees short of its authorized establishment for 1963-64.

The new Civil Service Act became effective April 1, 1962. Section 39 of this Act states that the Commission may authorize a deputy head to exercise and perform any of the powers or functions of the Commission under the Act in relation to the selection of candidates for a position. Section 74, headed "Exclusions", reads as follows:

In any case where the Commission decides that it is not practicable nor in the public interest to apply this Act or any provision thereof to any position or employee, the Commission may, with the approval of the Governor in Council, exclude such position or employee in whole or in part from the operation of this Act; and the Commission may, with the approval of the Governor in Council, re-apply any of the provisions of this Act to any position or employee so excluded.

On May 30, 1962 I asked the Chairman of the Civil Service Commission what action could now be taken toward implementing the recommendation made by the Public Accounts Committee and whether the Commission would be prepared to accede to the Committee's recommendation by delegating to me the right to recruit my own staff. The Chairman replied to this question on June 20, 1962 as follows:

My colleagues and I are of the opinion that section 74 of the Civil Service Act does not apply in this case since the Commission must, in order to invoke it, decide that 'it is not practicable nor in the public interest to apply this Act or any provision thereof to any position or employee' before asking the Governor in Council to approve the exclusion of any position or employee in whole or in part from the operation of the Act. We are of the opinion that both practicality and the public interest would indicate that you and your officers should make a genuine effort to be governed by the same considerations which affect the civil service as a whole, although it is admitted that there is some justification, based on analogy, for treating your staff as the new Civil Service Act has treated that of the Houses of Parliament and the Library of Parliament. I can only suggest, therefore, that you seek an amendment to section 65(4) of the Financial Administration Act, in order to secure the exclusion of your staff either in whole or in part from the operation of the Civil Service Act. The provisions of section 39 of the latter only go to selection and not to appointment, and are primarily intended for the implementation of section 38, where the responsibility lies with the Commission but for practical purposes departments are encouraged to conduct their own promotional competitions subject to subsequent approval by it.

In view of the serious effect that the recruitment difficulties and delays are having on the scope of the audit, I asked the Minister of Finance on October 3, 1962 if steps could be taken whereby the Auditor General might be empowered to recruit and manage his small professional staff as recommended by the Public Accounts Committee in 1960 and again in 1961. He agreed with me that while an appropriate amendment by Parliament to section 65(4) of the Financial Administration Act would, as suggested by the Chairman of the Civil Service Commission, appear to provide the basic solution to the problem immediate relief would, in the the circumstances, seem to be available were the Civil Service Commission to decide, under section 74 of the Civil Service Act, that it is not practicable nor in the public interest to apply this Act to the Staff of the Auditor General's Office. The Minister of Finance advised me on November 16, 1962 that he had made a formal request to the Civil Service

Commission for exemption pursuant to section 74 of the Civil Service Act to permit the Auditor General to do his own recruiting but that he had been advised formally by the Acting Chairman that the Commission does not support this request.

Following the dissolution of Parliament on February 6, 1963, I asked the Civil Service Commission what reconsideration it might be prepared to give to its position with respect to section 74 of the Civil Service Act in the light of the recommendation made by the Public Accounts Committee in its Second Report 1963. I received a reply from the Commission on April 3, 1963, when the Chairman sent me a copy of a letter he had addressed to the Chairman of the Public Accounts Committee, presumably for attention as and when the Committee might be next convened and a chairman appointed. This letter stated that the Commission would not reconsider the position it had previously taken with respect to the use of section 74 of the Civil Service Act as a temporary measure pending amendment to the Financial Administration Act.

Ottawa, October 30, 1963.



HOUSE OF COMMONS  
First Session—Twenty-sixth Parliament  
1963

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STANDING COMMITTEE  
ON  
**PUBLIC ACCOUNTS**

*Chairman:* Mr. G. W. BALDWIN

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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

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Public Accounts, Volumes I, II and III (1962)

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FRIDAY, NOVEMBER 15, 1963

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WITNESSES:

Mr. M. Henderson, Auditor General of Canada, and Mr. R. G. MacNeill,  
Chairman of the Civil Service Commission.

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1963

# STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baldwin

Vice-Chairman: Mr. W. H. McMillan

and Messrs.

Basford,	Harkness,	Rochon,
Beaulé,	Lessard ( <i>Saint-Henri</i> ),	Rock,
Berger,	Loiselle,	Rondeau,
Cameron ( <i>Nanaimo-Cowichan-The Islands</i> ),	McLean,	Ryan,
Crouse,	McNulty,	Scott,
Drouin,	Muir ( <i>Lisgar</i> ),	Slogan,
Dubé,	Noble,	Smith,
Eudes,	Nowlan,	Southam,
Fane,	O'Keefe,	Stefanson,
Forbes,	Olson,	Starr,
Frenette,	Pigeon,	Tardif,
Gendron,	Pilon,	Tucker,
Gray,	Regan,	Valade,
<sup>2</sup> Habel,	Ricard,	Wahn,
Hales,	Richard,	Whelan,
	Rinfret,	<sup>1</sup> Winch,
		Woolliams—50.

M. Slack,

Clerk of the Committee.

<sup>1</sup> Replaced by Mr. Fisher on Friday, November 8.

<sup>2</sup> Replaced by Mr. Cameron (*High Park*) on Tuesday, November 12.

ORDERS OF REFERENCE

HOUSE OF COMMONS,

FRIDAY, November 8, 1963.

*Ordered*,—That the name of Mr. Fisher be substituted for that of Mr. Winch on the Standing Committee on Public Accounts.

TUESDAY, November 12, 1963.

*Ordered*,—That the name of Mr. Cameron (*High Park*) be substituted for that of Mr. Habel on the Standing Committee on Public Accounts.

Attest.

LEON-J. RAYMOND,

*The Clerk of the House.*





## MINUTES OF PROCEEDINGS

FRIDAY, November 15, 1963.

(3)

The Standing Committee on Public Accounts met this day at 9.05 o'clock a.m. The Chairman, Mr. G. W. Baldwin, presided.

*Members present:* Messrs. Baldwin, Cameron (*High Park*), Drouin, Fane, Forbes, Lessard (*Saint-Henri*), McMillan, Muir (*Lisgar*), O'Keefe, Pigeon, Richard, Rinfret, Rochon, Rock, Ryan, Slogan, Southam, Stefanson, Starr, Tucker, Valade, Wahn.—(22).

*In attendance:* Mr. M. Henderson, Auditor General; Mr. Ian Stevenson, Assistant Auditor General; and Messrs. Long, Cooke, Laroche, Smith and Miller from the Auditor General's office. *From the Civil Service Commission:* Mr. R. G. MacNeill, Chairman; and Messrs. J. R. Neville, C. R. Patterson and G. O. Currie.

The Chairman announced the composition of the Subcommittee on Form of Estimates as follows: Mr. Wahn, Chairman, and Messrs. Berger, Tucker, Harkness, Stefanson, Olson and Cameron (*Nanaimo-Cowichan-The Islands*).

An oral report of the Subcommittee on Agenda and Procedure was then presented by the Chairman recommending that the Chairman of the Civil Service Commission, Mr. R. G. MacNeill, be invited to appear this morning on the question of staff recruitment for the Auditor General.

Mr. MacNeill was called and he made a statement explaining action taken by the Civil Service Commission on staff recruitment for the Auditor General. He referred to his explanatory letter of April 3, 1963, addressed to the Chairman of the Committee, copies of which were distributed to the members, and then was questioned.

Mr. Henderson was also questioned.

After discussion, Mr. Richard moved, seconded by Mr. Lessard (*Saint-Henri*),

*That* consideration of the question of recruiting staff for the Auditor General's office be deferred at the present time to allow Mr. MacNeill and Mr. Henderson to reach an agreement and report back to the Committee by next Friday, November 22nd on the result of their discussions. *Motion carried unanimously.*

Mr. MacNeill was retired.

The Committee then further considered the Auditor General's Follow-Up Report on action taken by departments and other agencies in response to recommendations made by the Committee in 1961.

Mr. Henderson, assisted by Messrs. Stevenson, Smith, Miller and Long, was questioned.

The Committee agreed that witnesses be heard with respect to paragraphs dealing with Second Class Mail and Advances to the Exchange Fund Account.

At 10.50 o'clock a.m., the Committee adjourned until 11.00 o'clock a.m., on Monday, November 18, 1963.

M. Slack,  
Clerk of the Committee.





## EVIDENCE

FRIDAY, November 15, 1963

The CHAIRMAN: I wish to announce the composition of the subcommittee on form and content of estimates. The chairman will be Mr. Ian Wahn and the members will be Mr. Berger, Mr. Tucker, Mr. Harkness, Mr. Stefanson, Mr. Olson, and Mr. Cameron (*Nanaimo-Cowichan-The Islands*).

There are two new members in the committee, Mr. Fisher and Mr. Cameron (*High Park*).

Gentlemen, may I briefly recapitulate our agenda for today pursuant to a motion of the committee at the last meeting under the terms of which the subcommittee met? This motion was mandatory, and to the effect that the first item of business on the agenda would be the question of recruitment of the staff of the Auditor General. Pursuant to that resolution and the discussion of the subcommittee, I have invited Mr. MacNeill, the chairman of the civil service commission, to come here today, together with members of his staff.

Very briefly, before I call on Mr. MacNeill and Mr. Henderson, I would like to recapitulate for the benefit of the new members what is involved. In the past, committees have included in their final reports in three successive years recommendations to the effect that the Auditor General should be permitted to recruit his own staff subject to certain other provisions, and of course this involves the consideration of the Financial Administration Act and the Civil Service Act.

The last meeting at which the committee considered this subject was held on February 5, 1963, in circumstances of some unusual strain, and it may well be that there was insufficient time for full and complete discussion on the part of all interested. For that reason we thought it best that Mr. MacNeill should come here today.

Before I call upon Mr. MacNeill I should say that changes have been made in the personnel of the civil service commission and time has elapsed for consideration of all the facts; and it may well be that some basis for an accommodation may have been built up between the commission and the Auditor General, between Mr. MacNeill and Mr. Henderson. If that is so, of course the committee would naturally welcome it. I just mention it because of the circumstances of the meeting in February.

I will now ask Mr. MacNeill, the chairman of the civil service commission, if he has any suggestions or comments to make.

Mr. R. G. MACNEILL, (*Chairman, Civil Service Commission*): Thank you, Mr. Chairman.

This is my first appearance before the public accounts committee, and I think it is probably a useful device to enable you to see the chairman of the civil service commission in person and it gives me also an opportunity to acquaint myself with the procedures of the public accounts committee. Although I was a member of the treasury board staff for a number of years, I never had the pleasure of appearing before the committee. I have had a considerable amount of experience with control organizations.

One often finds that the criticism of a control or central organization is usually centered around the point that there is a great deal of red tape involved in a great many of their procedures. I would like to assure the committee that neither the treasury board nor the civil service commission has a monopoly

on red tape: we see it in many departments as well. Many of the criticisms levelled at control organizations arise from difficulties in the departments themselves, because by the very nature of the type of administration which one has to apply in dealing with a large organization such as the federal government, inevitably one has to set up certain procedures in order to carry out the provisions of the statutes under which we operate and in order to see that the intent and wishes and the dictates of parliament are carried out.

I became the chairman of the civil service commission on February 4. The committee met last time on February 5. Therefore, shortly after I became chairman I went over the evidence which had been given and the various arguments, pro and con, dealing with the subject. I considered the interpretation of the law as I saw it, and wrote a letter to the secretary of the standing committee after consultation with my fellow commissioners so that I could put on record the views of the civil service commission as a commission, looking at the matter from the question of complete exclusion under section 74. I believe copies of this letter have been circulated to you.

There is one point I would like to make in connection with the problem of exclusion under section 74. I need not go into the details of the provisions of section 74, since this has been considered on many occasions. However, if you are looking at the matter of the authority of the civil service commission to exclude a department in whole or in part from section 74, you must read section 68 of the act in conjunction with section 74. Section 68 also provides that the civil service commission must recommend to the governor in council the manner in which positions or employees wholly or partly excluded under section 74 shall be dealt with. So there is a continuing responsibility on the civil service commission even with total exclusion, as I call it.

I am not arguing the pros and cons of whether the Auditor General should or should not have total exclusion, because this is beyond my purview, but if he does require it we feel this is a matter for parliament to deal with on a legislative basis. The arguments have been, I think, very lucidly outlined in the evidence which has been given before this committee on a number of occasions, but I see no particular reason why we cannot assist the Auditor General, if recruiting is the main problem, to improve the method, the rate of recruitment and so on.

When I looked over this material early in February and discussed it with the staff of the commission, we put on a special drive to see if we could not take up the slack in this particular area; and in the past year, since January, 1963, a number of arrangements have been made with the Auditor General and his staff in order to minimize delays and to see if we could not meet the question of the timing problem and also the question of obtaining the numbers required.

In presenting the summary of the civil service commission's activities in connection with the office of the Auditor General since that time, I would like to note the following points. In an attempt to speed up recruiting, the commission has initiated continuing competitions in place of competitions with a specific closing date. This is a technique whereby you always have an open competition, so if anyone knocks on the door at any time and has the proper qualifications, he can be taken in. I understand that both my predecessor and the present commissioners have indicated to the Auditor General that any time he has a candidate, the technique is merely to qualify him and the appointment will be made. The qualification is not a long process because the Auditor General's people do sit on all these boards and they are the technical experts in assessing a man's qualifications.

In addition to this we have initiated an intensive advertising campaign, with display advertisements in local newspapers for competitions to fill vacancies on the Auditor General's staff.

At the request of the Auditor General, in 1963, the following new procedures were adopted and are now included in recruitment and selection for all candidates to his office. He wished to have letters of recommendation from previous employers, and he wanted the letters submitted to himself for approval; he wanted a name check on each successful candidate from the R.C.M.P. There is a great deal of time consumed in many of the processes, and some of these procedures caused still further delay. We pointed this out to the Auditor General in a letter of August 15. The delays have been further aggravated by the fact that the Auditor General himself wishes to see all the references, and as a result, for example when he was abroad last summer, many of these were referred to him and this has taken a considerable amount of time. In 11 cases the Auditor General refused to accept the candidates that the examining board—of which his people were also members—had approved. Of course, it is his prerogative to reject candidates. It is not the policy of the civil service commission to appoint people who are not acceptable to departments and whose technical qualifications are not acceptable.

On October 1, the authorized establishment of the Auditor General, owing to the freeze, was 169 and the positions vacant were seven in number. On October 7, the civil service commission received a copy of a letter dated October 3, from the treasury board advising the commission that the board had unfrozen the total establishment of the Auditor General, effective July 13, 1963. Of course, we cannot go back to that date to take up the slack created in a letter which we received on October 3. This had the effect of creating additional vacancies which had previously been frozen and could therefore not be filled immediately.

The district offices of the Auditor General in Halifax, Toronto, Winnipeg and Vancouver have been fully staffed as a result of the civil service commission competitions held since January 30. The Edmonton office has only been recently opened and a competition is now under way. This was requested on October 8. The Montreal office is running a continuing competition to fill two vacancies. Two candidates are qualified and presumably available for these positions, and we are now awaiting acceptance by the Auditor General. An additional Montreal vacancy is being filled by departmental promotion. The main difficulty has been in filling the headquarters' position.

Since the last public accounts committee meeting, which is the period of my association with this problem, the civil service commission has provided 30 qualified candidates for the Auditor General. Of these, 19 have been appointed and 11 rejected by the Auditor General as unsuitable. In the same period there were 11 separations of auditors. There are 17 vacancies now owing to the matter which I mentioned, the freeing of the Auditor General's staff this month from staff controls. The civil service commission has an additional 100 applications now which will be placed before an examining board on November 18, from which it is hoped we will be able to fill those vacancies.

It is apparent from what I have been outlining that the introduction of these rather time-consuming procedures at the request of the Auditor General do cause considerable delays. There is a high resignation rate. The refusal of the Auditor General to accept certain candidates, which, of course, is his prerogative, also complicates the problem. But since the date of the last public accounts meeting, the vacancies in the Auditor General's staff have been reduced by one-third.

I want to assure the committee that the civil service commission is quite prepared to do all it can, within the limits of the act, to assist the Auditor General in this problem. I am quite prepared to sit down with him at any time and discuss specific problems which he may have. I know he has some problems in recruitment in the lower echelons, particularly in the training grades. If



recruitment is his principal problem I am sure we should be able to work out some satisfactory solution which can be accommodated under the act.

The CHAIRMAN: Thank you Mr. MacNeill.

Is it your wish that we follow the practice of last time? Do you wish to have a statement now by Mr. Henderson and then ask questions of both Mr. MacNeill and Mr. Henderson?

Mr. McMILLAN: I think you said there were 35 applicants, of which 19 were appointed by the civil service commission and 11 rejected. What would be the reason for that? Could you mention something about the examinations? Do these people all qualify under the examinations for the position?

Mr. MACNEILL: The qualifications for positions on the audit staff and for any civil service appointment are based on certain standards of qualifications which are arrived at by consultation and agreement between the civil service commission and the department concerned. On every board we set up there is a representative of the department and a technical expert, and you rate people according to qualifications measured against certain standards. In the normal course of events and under the law, when the board rates people it rates them in a descending order, and under the law you are bound to pick the first man on the eligible list. This is the basic rule of the merit principle. But, as there are quite a number of vacancies in the Auditor General's establishment we have never been able to build up a long eligible list. Therefore the problem of priority of selection hasn't arisen. The Auditor General's people and our people rate the candidates who appear before a Board and they either meet the specifications or they do not. This is the method by which you establish an eligible list. Of course, a department may reject people on other grounds.

Mr. McMILLAN: Did the 19 candidates who passed the examinations pass the Auditor General's department as well?

Mr. MACNEILL: The Auditor General's representative was a member of the board.

Mr. McMILLAN: Were any of these 11 rejections, which seem quite high, taken on trial or were they rejected before being given this opportunity?

Mr. MACNEILL: They were rejected before.

The CHAIRMAN: Have you a question, Mr. Starr?

Mr. STARR: Mr. Chairman, unless Mr. Henderson wishes to say anything further on this matter I personally as a member of this committee feel that I have heard sufficient to decide for myself and to make the suggestion that we leave this matter to be ironed out between the Auditor General and the chairman of the civil service commission, with a hope they may be able to arrive at some conclusion whereby they can fill their staff as quickly as possible.

The CHAIRMAN: Without the helpful intervention of the committee.

Mr. STARR: Yes.

Mr. FORBES: Has the civil service any jurisdiction over the number of staff which the Auditor General or any other government department would have?

Mr. MACNEILL: No.

Mr. FORBES: What criteria do you use for employing additional people in the various departments? Is there any supervision over that?

Mr. MACNEILL: You will recall that under the old Civil Service Act it was the responsibility of the civil service commission, but under the new act, which came into force in 1962, this is now the executive's responsibility. In other words, the department produces the requirement and the treasury board is now the control mechanism by which the numbers are related to functions and to the amount of money which is available for that particular function. So, the

answer you want is that the treasury board is really the organization which decides or confirms the size of the establishment.

Mr. FORBES: They do?

Mr. MACNEILL: Yes. The civil service commission, on the other hand, has the responsibility of classifying the jobs, not necessarily the rate of pay but the function—that is, where they should fit in the classification structure for pay, quality of staff and so on. This is the responsibility of the commission in conjunction and in co-operation with the department.

Mr. PIGEON: I would like to put this question to Mr. Henderson. If, on occasions, you made your own recommendations to the civil service commission in respect of the candidate you wanted and so on, do you think that would help the civil service commission to produce the candidates you want and need?

Mr. A. M. HENDERSON: (*Auditor General*): Mr. Pigeon, they have indeed accommodated me on a number of specific requests, which is what I assume you have in mind. However, they have to be mindful, as Mr. MacNeill has explained, of their over-all procedures and the system they follow, which he has explained in part. But, they have most certainly come forward and assisted me in respect of certain specific problems.

Mr. PIGEON: In view of your experience, do you think that salaries are sufficient to appeal to good graduates and to keep them. The idea would not be for them to come and then leave after two or three years but the hope would be that they would make their career here in your department.

Mr. HENDERSON: The salary structure of my office is currently being revised. It has not been recommended yet by the civil service commission to the treasury board, but this is pending. Over the past two years they have been making an examination of what my men do, how they do it, what our needs are and so on, and they have come through this past month or so with a report containing what I think are quite constructive salary recommendations. Certainly they are long overdue in some of the grades, but the structure I consider to be a realistic and sensible one. I do not regard salary as the obstacle in this problem.

Mr. PIGEON: But, personally, do you think the salary and conditions of work are conducive to attracting good candidates?

Mr. HENDERSON: Yes.

Mr. LESSARD (*Saint-Henri*): Do you think it would be a good idea to request the board to sanction an increase for these graduates who may wish to come here? Personally, I think this is the basis of your problem. I think your salary is too low.

Mr. HENDERSON: The salaries in the lower levels are not too low and are somewhat in excess of what private firms are paying; but, as we move into the upper echelons in the various classes the salaries fall behind those paid by the private firms.

Mr. LESSARD (*Saint-Henri*): How long would these young men have to work in your department before they could expect an increase in their salary?

Mr. HENDERSON: Well, actually under the system in the government the salaries are in four steps, so they get attended to, in my experience, more frequently than they do in commercial practice because a number of the increases are automatic under the prevailing system. Conditions of work are good, and this should not stand in the way of recruiting a good body of men because, after all, the young men we recruit today are the senior men of tomorrow and it is extremely important we bring in the best possible quality of men and that we have working conditions whereby they will stay with us.

Mr. LESSARD (*Saint-Henri*): What would you say the minimum age is for the recruiting of young men to your staff?

Mr. HENDERSON: Oh, I suppose you might say on the sunny side of 45, sir.

The CHAIRMAN: Which is the sunny side?

Mr. PIGEON: I have one last question. Do you think it would be a good idea if you, sir, each year paid a visit to the various universities in order to meet the young graduates to explain the conditions and the future for them here in Ottawa. In my opinion, a personal contact would be a good way for your department to recruit good men.

Mr. HENDERSON: You put your finger right on the very thing I would particularly like to do, because that is the practice which is followed by the comptroller and auditor general of the United States, who has the right to recruit and manage his own staff. This is very much along the line I want. He visits the graduating classes of the various universities. He brings a personal approach to the young men who are graduating with their degrees from the various institutes. In addition, he also has something that I want and which I have every expectation of getting—if I have the right to recruit and to manage my own staff—and that is recognition of my Office as an accredited office for students-in-training. The only way you get the degree of chartered accountant in Canada today is to work in a chartered accountant's office, and I want that recognition.

Mr. PIGEON: Why have you not the right to do that now? Is there a rule against it?

Mr. HENDERSON: You mean to recruit?

Mr. PIGEON: Yes.

Mr. HENDERSON: Because under the Civil Service Act and the Financial Administration Act—I will give you the exact wording of it, if you wish.

Mr. PIGEON: Although I realize the civil service commission has competent men, you are the one who knows what men you want, their qualifications and so on, and I think it would be a very good idea to amend the rules to give you authorization to choose your own men. I suppose it is the same in industry?

Mr. HENDERSON: Yes.

Mr. PIGEON: I am not a business man but if I was I think the success of my enterprise would depend on me having the responsibility to choose my own men.

Mr. HENDERSON: Well, sir, that is precisely what I am working for. I am asking for that right because the staff and the men are my principal tools in trade. I must say that I have been very heartened by what Mr. MacNeill has said this morning. If it is possible for us to sit down and try to work this out along the lines Mr. Starr has suggested, I am ready, willing and anxious to do that. It is a matter of academics with me whether we accomplish it under the provisions of the now existing Civil Service Act or whether we do it under an amendment of the Financial Administration Act. The point is I want to get on with the job.

Mr. PIGEON: I understand. I hope, Mr. Chairman, the committee will make a recommendation along this line in order to resolve this problem.

The CHAIRMAN: Thank you.

Mr. STARR: Is it not possible, Mr. Henderson, that you could still carry out your desire of selecting university students and then refer their names to the commission for approval?

Mr. HENDERSON: Well, that would be subject to the discussions I would have with Mr. MacNeill because merely to pick the people out and refer them to the commission and then to have to sit around and wait the length of time their procedures have taken which, in my experience in the past, has been lengthy, will not solve the problem.



Mr. PIGEON: Would that not eliminate the number of rejections?

Mr. HENDERSON: Well, the rejections to which Mr. MacNeill referred arose from the fact that I asked to see the references because it was important to check the quality of the people who are applying. They have a lot of applications and you do have to weed them out. My objections were on account of lack of experience or no experience at all.

Mr. PIGEON: If you had made a prior check and made a selection on the basis of their qualifications and references submitted, then the rejections naturally would eliminate themselves.

Mr. HENDERSON: So long as I can do the recruiting and am able to put them on the staff and to work, that is my particular interest.

Mr. PIGEON: That would exclude your department in this respect from the civil service commission, under which the other departments fall.

Mr. HENDERSON: Yes.

Mr. MACNEILL: Mr. Chairman, there are a few things I would have liked to mention, particularly in regard to university recruiting. The civil service commission, on behalf of all departments, does go out and look over the recruits—as we are doing right now—or, at least, the graduates or potential graduates, and we welcome the participation of departments in this operation. The difficulty which is encountered is the inability under the act to go out and pick a man off the street and say you are hired tomorrow.

A fundamental principle of the Civil Service Act, which I do not think has been brought out in the committee, is that it is the responsibility of the civil service commission to see that the public service is open to every Canadian citizen regardless of race, creed or colour. In doing this you must endeavour to give this opportunity to anyone who knocks on your door. You must be sure that you are not discriminating against one part of the country versus another part, one type of individual versus another. This is a basic principle which, I believe, we all agree should be maintained.

Now, it does involve some problems, in making sure you are not, shall I say, favouring one group as opposed to another, and for this reason there have to be certain procedures followed. For example, in university recruiting we try to get the best men. We have a great number of applications and a great number of people with various qualifications, who apply. We are only too happy to have the departments participate with us in this program and to help in the screening process. This is a program which has only been going on, incidentally, for the last ten years or so. In this highly competitive and technical age in which we live you cannot sit back, as we did some years ago, and wait for the individual to knock on your door. At the same time you have to be sure that you have given other Canadian citizens an opportunity to compete for jobs in the federal government administration, if he has the required qualifications. This is basic principle; however he must qualify and have the necessary qualifications as laid down for the job.

There is another bit of information I would like to pass on to the committee, as this is my first opportunity to do so; on October 1, the civil service commission delegated to all deputy ministers the responsibility and authority to exercise the commission's authority in the promotion and transfer field.

This was done in order to meet some of the criticism that the Glasco commission levelled against our personnel administration, or personnel management, that more responsibility should be given to departments for the management and development of their own people. As of October 1 of this year all departments have this authority, and, with it, of course, goes the responsibility for the continuing training and development of their people.

We have reserved to the commission responsibility for those in a salary bracket of \$13,000 and up since we feel that at a certain level it is the

responsibility of the commission to start a program of cross-fertilization, and transfers between departments, so that we can widen the opportunities for people in the public service, and give them an opportunity to further their career development. This program just started October 1 of this year. I thought you might be interested to learn of it, because this is a step forward in granting the departments some of the responsibility which is rightly theirs in the management and control of their own people.

The CHAIRMAN: Thank you.

Mr. VALADE: I would like to go back to the basic reason for the difficulty which seems to arise between both parties at the head table. At the last sittings of this committee we heard that the committee authorized the Auditor General and the chairman of the civil service commission to get together, to come to an understanding, and to settle the problem. Yet here we are back at the same problem.

The suggestion was made this morning that they sit together and come to an understanding. I would like to know from Mr. Henderson if this is possible right now, and if so, on what conditions? What are the requirements which must be implemented for you to come to a decision? If it is not possible, the committee will have to make some recommendations. But the committee should have the assurance that some understanding will be reached soon. Or, if this is not possible, then we can go about producing more practical recommendations. This is why I would like to know the opinions of both witnesses.

Mr. HENDERSON: Perhaps I may speak to that. You did mention this at the last meeting,—and no doubt you have had an opportunity to read the February 5 minutes, including the memorandum at the back—outlining the things that I have not been able to do. I can only say to you that I welcome the opportunity to have another crack at this problem with the commission. But as Mr. MacNeill explained to you, he has only recently come to office; I think it was about the time of our last February meeting.

We shall endeavour to see if we cannot work something out. I think he knows very clearly now from this exchange what I want to do.

However, I am very hopeful that as a result of this discussion he may see his way clear under the provisions of the Civil Service Act to give us that right, or rather to give me that right, and I hope that we could come back to this committee, if it is your wish, in a short time, to tell you the results of that discussion. I have not thus far sat down with him about it.

Mr. VALADE: I do not see any reason why we should spend any more time discussing the matter now.

Mr. PIGEON: I am sure Mr. Henderson in the past did his best to co-operate with the civil service commission. But in my opinion the only way to give him the power is to change the law and the rules. That is the only way. If the rules permit Mr. Henderson to do something, he will then be able to do a good job, and to co-operate with the civil service commission, because if you have two authorities, it is hard for a man to do his best, if his power is not based upon a rule or a law.

Mr. HENDERSON: I have every wish in the world to co-operate to the maximum extent that I can. But as you know I have been seeking to remedy this situation for the past three years.

Mr. STARR: I would like to ask Mr. MacNeill when he would expect to fill the requirements of Mr. Henderson with respect to staff?

Mr. MACNEILL: Well, as I mentioned earlier, I would hope that with the next competition we should have the staff up to strength. We have 100 applications at the present time, and out of these we should be able to find sufficiently qualified people.

Mr. STARR: I would like to go a step further and ask when do you expect that this will be completed and the selections made?

Mr. MACNEILL: The boards start on November 18, and this process begins.

Mr. J. R. NEVILLE (*Chief of Requirements Division (2), Civil Service Commission*): As far as the actual selection boards go, with the selection as such starting on November 18, we should be able to do it within a month or five weeks. But as Mr. MacNeill has pointed out, subsequent to that we still have to get security clearances and personal references cleared with the Auditor General, and this spreads out the time before you can get on with the job.

Mr. STARR: How much time would that take?

Mr. NEVILLE: This process has been averaging about two months.

Mr. STARR: Even with a hundred applications in for the 17 positions this is going to take you to the end of March before you will be able to refer to them as employees of the Auditor General?

Mr. MACNEILL: Under this procedure, yes; but if the Auditor General has some people on tap, this can be done sooner. If he will forego some of his requirements, and if he does his own checking on them, we would be happy to make the appointments the next day.

Mr. STARR: Can he check on security, which takes two months?

Mr. MACNEILL: No.

Mr. STARR: No. You see, there is still the same problem.

Mr. VALADE: Mr. Chairman, on a point of order, I think it is causing a lot of embarrassment for both parties, who are in a position to be able to discuss this problem between themselves. But if we keep on bringing up different angles today we may involve them in a lot of other problems. I wonder, in view of what has been decided and agreed upon, if we should not let the gentlemen get together on this, and then later on, if it is the wish of the parties or the committee, we could bring the problem back here? I think we are only heaping coal on the fire to go into details now.

The CHAIRMAN: I was about to suggest that the committee had been very helpful in questioning, but before we manage to muddy the strong stream of understanding which seems to flow this morning, the committee might give some consideration—subject to anything which anybody still wanted to say—to letting Mr. Henderson and Mr. MacNeill sit down within a stipulated time, within which they might come back to the committee to say if there had been success *ad idem*, a meeting of the minds, from which we could then carry on. I think you raised a very good point, not necessarily a point of order, and I am glad you brought it up.

Mr. RICHARD: I was going to say the same thing. There is no use in our continuing to question at this time, but I would be happy if in the near future we might have another report from the parties which would indicate whether they could reach some kind of agreement. At that time we might decide that there was no need for further questioning to dispose of the matter. But if they cannot get along, we should know that pretty soon.

Mr. LESSARD (*Saint-Henri*): I understand Mr. Valade would like to amend the act to give more power to Mr. Henderson. But I do not agree with that at all. I think it would be creating very dangerous precedents for the future, because if we should do it for one, we would have to do it for all the departments. I think it would create a very bad situation. I think Mr. Henderson and Mr. MacNeill should be able to sit down together and settle this thing between themselves.



Mr. HENDERSON: I am, as you know, an officer of parliament. Other officers of parliament such as the librarian, Mr. Speaker, and so on, have the right to recruit for themselves. I am the only officer of parliament who does not have that right. I am not an officer of the government.

Mr. MACNEILL: I also am an officer of parliament who reports to parliament.

Mr. MUIR (*Lisgar*): I have been trying to reach your eye for some time, Mr. Chairman. Considering the tremendous backlog of work which this committee has to do in regard to the Auditor General's report, and since we have had this question before us on a number of occasions already, and since we have had the explanation of the commission as to why they are working under the terms that they work under now, and why it cannot be done unless there is a change in the act, I think, after listening to the two witnesses this morning, that it is perhaps more a matter of a meeting of the minds than of anything else. So I think we should resolve this thing this morning and let us get on with the work we are set up to do.

Mr. MACMILLAN: Would a motion not be in order to delay a decision on this matter for two or three weeks? Then we could hear from these two gentlemen at that time?

The CHAIRMAN: I think a motion would be in order, to legitimize the discussion which has already taken place.

Mr. RICHARD: Then I move that we adjourn consideration of this matter at the present time in order to allow Mr. MacNeill and Mr. Henderson to discuss the matter, at the call of the Chair we should ask them to appear again to report at an early date on their agreement or disagreement, so that this committee may take action on this matter; something has to be done.

The CHAIRMAN: Would you mind putting your motion in writing so we may have it before us specifically?

Mr. VALADE: While the motion is being processed I wonder if Mr. Henderson could tell us what maximum delay is required? If it is a problem of filling his personnel requirements, what delay should we grant in this motion before he comes back to the committee?

Mr. HENDERSON: I would have to ask Mr. MacNeill what length of time he would regard as reasonable for us to sit down and sort this thing out. I am ready to do it right away.

Mr. MACNEILL: I am tied up this afternoon, but I would be very happy to sit down with you on Monday.

Mr. HENDERSON: The committee meets on Mondays and Fridays. What about a week from today, for instance? Would you like us to come back a week today?

The CHAIRMAN: We would be happy to have you come back.

Mr. PIGEON: I think it would be good to get Mr. Henderson to draft a proposition with Mr. MacNeill as to a date, and we could decide next time, because if we are obliged to do the same thing, we should be able to say that we are united like the rest of this country. That is the only way in which to proceed. I respect the civil service commission, but we have had the Glassco report recommending many things, and it is now time for this committee to take action resolving this problem if possible, so as to give Mr. Henderson more power to acquire more competent men.

Mr. HENDERSON: Thank you very much.

The CHAIRMAN: Is there any further discussion?

Mr. MUIR (*Lisgar*): This committee has recommended over the past three years; however I think it is not within the power of the committee to decide this question at all. I submit it is a matter of government policy. I cannot see

any reason why we should spend any more time making any more recommendations.

The CHAIRMAN: Is this motion seconded?

Mr. LESSARD (*Saint-Henri*): I second the motion.

The CHAIRMAN: I would ask the clerk to read the motion.

The CLERK: "That the consideration of the question of recruiting the staff of the Auditor General's Office be deferred at the present time to allow Mr. MacNeill and Mr. Henderson to reach an agreement and to report the result of their discussions to the committee next Friday, November 22.

The CHAIRMAN: Are you ready for the question?

Mr. PIGEON: I prefer if possible, as I suggested, that Mr. Henderson and Mr. MacNeill draft something for the committee.

The CHAIRMAN: Are you ready for the question, gentlemen?

Motion agreed to.

The CHAIRMAN: Thank you very much indeed, Mr. MacNeill. We hope to see you back and we appreciate your coming here with the members of your staff. We hope this will bear fruit in the not too distant future.

Mr. MACNEILL: Thank you, Mr. Chairman and gentlemen.

The CHAIRMAN: Gentlemen, under these conditions we might well proceed with Mr. Henderson's report on the follow-up of the recommendations made by the committee in previous years. I think you all have a copy of that with you. We will probably have to pass the question of the second class mail, which appears on page 3.

At the last meeting we had the assistant deputy postmaster general, but I did not know just how far we would progress today so I did not ask him to come back. We will therefore stand that over and proceed to the next item on page 5, which is the interest on the temporary investment of university grants funds.

Mr. HENDERSON: In paragraph 11 of its report, the committee commented upon the question of interest on funds temporarily invested by the Canadian Universities Foundation (between the date of receipt of funds from the Minister of Finance and the date of the payment of grants to universities). The committee noted that it had been informed that the opinion of the law officers was that, on balance, the money ought to be returned to the Receiver General and a formal demand had been made to the Canadian Universities Foundation requesting the return of approximately \$109,000. The committee further noted that it had been informed that, following representations by the foundation, the matter had again been referred to the law officers for a further opinion and the committee requested the deputy minister of finance "to report to it next year on the situation that may then exist with respect to this matter".

You will have noted from the document which has been circulated the circumstances and the comments made on page 6 where we point out how the matter was finally disposed of and show how in the discussion of the vote which was disposing of it, no reference was made in the House of Commons to the account which was in fact standing in the name of the Canadian universities foundation. It merely said there was one debt of \$109,651. After that had been passed by the House of Commons, the listing was tabled and it disclosed that this was the item under consideration. I felt that was information which you should have because in my opinion the information should have been made available at the time you were considering the action.

The CHAIRMAN: If there is no comment on that, will you pass on to the next item.

Mr. McMILLAN: What was the interest that was allowed by the government?

Mr. HENDERSON: I will ask Mr. Stevenson to answer Dr. McMillan's question because he has this first hand.

Mr. IAN STEVENSON (*Assistant Auditor General*): It was interest on the investment of the funds.

Mr. MUIR (*Lisgar*): Before the witness starts talking, may I ask if he is telling us what they are thinking about the way in which it was done?

Mr. HENDERSON: If I could answer that point for Mr. Muir; as you know I have put forward my views on the importance of clarity and full information in the estimates, and I should have preferred to see the language of vote 710 come right out and say what was the nature of it instead of only disclosing it after you had passed it. That is my point. It is an example that I felt I should draw to your attention. Any comments that you may have on that would be interesting. I think it is important in the interests of complete disclosure of facts when voting supply.

Mr. MUIR (*Lisgar*): Certainly it would seem that we passed something here that we did not know we were passing. We passed something without any explanation, and that I would think is very undesirable from the standpoint of parliament.

Mr. HENDERSON: That was my opinion, sir.

The CHAIRMAN: Is there any further comment? If not, will you pass to the next item, Mr. Henderson, which is Crown Assets Disposal Corporation.

Mr. HENDERSON: In paragraph 19 of its report the committee stated that it would watch with particular interest the result of the inquiry by the royal commission on government organization as to whether the disposal of crown assets could be more efficiently performed by a division of the Department of Defence Production.

As I have mentioned, it had been the recommendation of the committee that this matter be followed up. In volume II of the Glassco commission reports there was a recommendation that this corporation be operated as a division of a proposed department of purchasing and supply with its personnel and methods of operation being integrated as closely as possible with other functions of the department.

The only information I can give you on that is that, on October 14 last, the minister of industry did state that the government is currently giving consideration to a number of recommendations in the Glassco report in so far as it concerns these corporations, by which I assume he meant crown corporations such as the Crown Assets Disposal Corporation. However, as you may have noted, on November 5, when the president of the privy council tabled his listing of the 68 recommendations of the Glassco commission which have been approved by the government, he did not include this among them.

Mr. STARR: There is a question that I would like to ask though I do not know whether or not it is in order, Mr. Chairman. If Mr. Henderson can comment upon it I shall be grateful.

Does the Auditor General audit the books of this crown corporation?

Mr. HENDERSON: Yes.

Mr. STARR: If so, does the Auditor General look into the transactions that have been undertaken by this crown corporation, and the disposal of corporations?

Mr. HENDERSON: Yes.

Mr. STARR: That being so, has the Auditor General checked the amounts that have been collected on behalf of the government through the sale of these and have they, in the opinion of the Auditor General been reasonable? Or has the



Auditor General found any properties or equipment of any kind which have been disposed of for which, in his opinion, a better price could have been obtained?

Mr. HENDERSON: No, sir, we have not made any report or comments on instances of that type. If anything of that nature came to our attention it would be our policy to discuss it with the officers of the corporation and with the minister responsible, but thus far we have not had occasion to do so.

Mr. STARR: You have not ascertained whether the crown has received the proper price for any government property or equipment?

Mr. HENDERSON: We have exercised our best diligence and prudence, I would hope, in looking over their transactions; but to my immediate knowledge no such instances have come to our attention.

Mr. STARR: Have you endeavoured to ascertain the means used for disposal? In other words, are tenders called?

Mr. HENDERSON: Yes, sir, we are familiar with that.

Mr. STARR: And you are satisfied?

Mr. HENDERSON: Yes, we are satisfied that the procedures are satisfactory because we keep up a continuing check on their system of internal control.

You may be interested to recall that in 1960 this corporation was under close scrutiny by this committee, and the president and his officers were present. Industrial representatives were invited to speak in regard to its policies and practices.

Mr. STARR: Do you check into their operations in respect to property or equipment to see whether it could have been used by the crown and should not have been in the hands of the disposing corporation?

Mr. HENDERSON: We have raised a number of such questions when observing what appeared to us to be surplus assets in the hands of other agencies, corporations and departments, because of the responsibilities of the government under the Surplus Crown Assets Disposal Act.

Mr. McMILLAN: You do not check the physical assets, do you?

Mr. HENDERSON: No.

Mr. McMILLAN: Nor any member of your department?

Mr. HENDERSON: No, sir, we are not engineers. We try to bring reasonable intelligence to bear upon the question, however, and to satisfy ourselves that they are there, so to speak.

Mr. SLOGAN: I believe the Glassco commission recommended that as far as possible any surplus properties and equipment the government might have should be disposed of, especially in the way of property. Has any action been taken by the government in this regard?

Mr. HENDERSON: Not as far as I know, Mr. Slogan. The government, as the president of the privy council said on November 5, is proceeding with its study of the Glassco recommendations. He brought out a listing of 68 of them, which they had approved. However, there was no reference to this particular recommendation of the Glassco commission. I would assume that it will be considered and perhaps dealt with in subsequent lists that he may table. At all events, it is something that I shall be following up.

Mr. SLOGAN: How much discretion do officers of the Crown Assets Disposal Corporation have in awarding tenders? I am thinking of an instance in my own constituency where the Department of Public Works turned over a piece of surplus property for disposal, called tenders and obtained three tenders. Then the Crown Assets Disposal Corporation did not accept any of those tenders but

awarded the contract, at the same price as the highest tenderer, to a person who had not tendered at all. Can they exercise such discretion after they have called tenders?

Mr. HENDERSON: Mr. Slogan, I would want to put that question to the president of the corporation. I think it is something that, in fairness to his method of operation, he should be given the opportunity to answer.

Mr. SLOGAN: I know they are protected by saying that not necessarily will the highest or any tenderer be accepted, but in general practice they should accept the highest tender.

Mr. PIGEON: In view of your experience, sir, do you think it would be beneficial if all crown corporations were to come under a newly created government department, thus providing a situation in which all crown corporations would submit to this minister.

Mr. Henderson: No, sir, my personal view of that is that it would not be a good idea, and for this reason: The crown corporations which we have in the Canadian government today are each handling a different type of function. In the handling of that function—and I am giving you a personal opinion—it is operating very much as a government department operates; it is another arm of the government organization. Therefore it would seem to me to make sense to have these corporations directed by those ministers who have responsibilities in that particular area.

The Crown Assets Disposal Corporation is reporting to the minister of industry. Working closely, as it must, with defence production and related areas, it seems to me that Industry is the sort of area in which it would operate. I think you would pose a very difficult problem for a minister if he had to worry about that and at the same time deal with say the Canadian Broadcasting Corporation and the Canadian National Railways, for example. They are all in different areas. That is my personal view.

Mr. STARR: If your recommendation was adopted, Mr. Henderson, would it mean the disposal of any of this equipment would have to be approved by the treasury board?

Mr. HENDERSON: This is not my proposal; it is a proposal of the Glassco commission.

Mr. STARR: If it comes under the direct responsibility of the minister, would treasury board approval be necessary?

Mr. HENDERSON: It is a crown corporation reporting to the minister of industry at the present time.

Mr. STARR: But they have their own jurisdiction for calling for tenders and approving them themselves without the approval or any check by the treasury board.

Mr. HENDERSON: Yes, and the same is true with the other crown corporations.

Mr. STARR: Yes, I realize that, but in this case we are not dealing with the others. Your recommendation is that it come under the direct supervision of the minister.

Mr. HENDERSON: This recommendation in this committee stemmed from the discussion, which I mentioned, about two years ago with the officers of the corporation when it was thought that it might be able to function administratively as a part of the Department of Defence Production. As I recall, the assistant deputy minister of the day was there, and he stated that would be a matter of government policy. I think what the members were primarily interested in was cutting down office overhead and possible duplication of work between this crown corporation and the Department of Defence Production. That was the point that Mr. Glassco and his associates picked up and

which presumably led to this recommendation. At the present time we should, I think, bear in mind that there are changes under way in the Department of Defence Production vis-a-vis the Department of Industry and Development, and they very well have this before them.

Mr. MUIR (*Lisgar*): Mr. Chairman, I wonder if Mr. Henderson, in the course of his review of the Crown Assets Disposal Corporation, has any way of checking whether material declared surplus and sold to them has subsequently been repurchased by the department that was declaring them surplus.

Mr. HENDERSON: Our audit work, as you know, is a test check; and we most certainly would follow through any such cases that we saw in the course of that test check as a matter of general interest.

Mr. MUIR (*Lisgar*): On the supposition that the Crown Assets Disposal Corporation are selling something for national defence, do they credit the Department of National Defence with the monies which they receive from that surplus material?

Mr. STEVENSON: No.

Mr. MUIR (*Lisgar*): It goes back to the consolidated revenue fund?

Mr. STEVENSON: It goes back to the consolidated revenue fund.

The CHAIRMAN: The Auditor General does in due course bring before us the audits of the crown corporations, at which time a complete enquiry can be made.

This topic is of limited scope and we have perhaps escaped from it, but I thought it was of interest. If there are no further comments, may we turn to the prairie farms emergency fund deficit.

Mr. HENDERSON: Having regard to the provisions of the Agricultural Stabilization Act, the committee recommended in paragraph 27 of its report that consideration be given to amending the Prairie Farm Assistance Act to provide similarly for the inclusion of an item in the estimates to cover any deficit that might be anticipated in the operation of the prairie farm emergency fund.

This I have dealt with in both my 1961 and 1962 reports, and evidence was brought forward by officials of the treasury board and others defending the practice they have followed. However, you will notice from page 7 of the document you have before you that early in 1963, addressing himself to the secretary of the treasury board, the deputy minister stated that he is prepared to go along with our proposition with a view to complying with the committee's recommendation. I would think this step should commend itself to the committee.

If this is carried through to its logical conclusion, the deficit will therefore be laid before parliament in the estimates in the normal way.

The CHAIRMAN: The next item deals with delay in accounting for counterpart funds.

Mr. HENDERSON: In paragraph 29 of its report the committee recommended: "that efforts be made by the director general, external aid, to obtain from the various recipient countries, on a reasonably current basis, the audit certificates called for by the agreements, and requests the Auditor General to report on the results in due course".

This continues to be a problem, and figures are now available which show that at the end of March last year a total of \$197 million has been expended on commodities for the establishment of counterpart funds, of which some \$17½ million was spent during the year 1962 and 1963. Now in respect of these agreements requiring the auditor generals of the recipient countries to certify the position of the counterpart fund accounts, a sum of \$194 million has been expended by Canada in respect of which related audit certificates had been



received up to the extent of \$154 million and reports which had not been certified received from the respective governments in the amount of \$19 million. This left a balance of \$20 million which was neither certified or reported back to Canada, including, of course, the \$17 million we expended in 1962-1963.

In respect of these agreements which did not call for certificates of the Auditor General a total of slightly under \$4 million has been spent. The position of the counterpart fund reported was \$3,200,000, leaving a balance of \$600,000.

Therefore, this situation is moving along reasonably satisfactorily and I would doubt very much, Mr. Chairman, whether any useful purpose would be served by spending very much time on this item. We are following this closely because the agreements call for certification of the counterpart funds by the recipient countries under external aid.

The CHAIRMAN: If there are no further comments we will proceed to the next item, "proceeds of fines not accounted for".

Mr. HENDERSON: In paragraph 35 of its report, the committee requested that the deputy minister of fisheries "report to next year's committee on the then current situation" with respect to the failure of a former magistrate to remit funds totalling approximately \$2,400, imposed and collected by him during the years 1956 to 1958 for offences under the Fisheries Act and regulations made thereunder.

Although the Department of Fisheries took action to liquidate the balance owing, and did so at the rate of \$50 a month, the department is not pressing for these payments. The balance is being reduced by services which continue to be rendered to the Department of Fisheries by the same debtor. Mr. Chairman, I do not know whether or not the members will have any view on this matter, but that is the way in which they are seeking to liquidate the debt at the present time.

The CHAIRMAN: Is there any further comment on this particular item?

Mr. MUIR (*Lisgar*): When do you expect this debt will be cleared up?

Mr. HENDERSON: I think perhaps Mr. Smith, who is here today and who is familiar with this, could answer your question.

Mr. D. A. SMITH (*Auditor Director, Office of the Auditor General*): Mr. Chairman, this will depend on the extent to which services are rendered by the ex magistrate to the federal government over the next year or so. The department presently takes the stand that the amount that has been received through the medium of section 95 of the Financial Administration Act approximates the amount which would have been received in any case under the arrangement to have the ex magistrate pay \$50 a month. That is the reason why this matter is not currently being pressed by the department.

Mr. WAHN: What type of services are being rendered?

Mr. SMITH: I believe this man is now a practicing lawyer and these are legal services being rendered to the federal government.

Mr. FORBES: Was the fact that he had some knowledge of law the reason he was not put in jail for the offence?

Mr. SMITH: I cannot answer that question.

The CHAIRMAN: I think the chairman will pass over that one.

The next is "construction cost of house at R.C.A.F. station."

Mr. HENDERSON: In paragraph 39 of its report, the committee recommended:

that when authorization is given by the treasury board for a project to cost a stated estimated amount, it should be clearly understood by all concerned that the amount authorized is intended to include not only cash outlays but also the cost of service labour, materials supplied from stores, service equipment utilized and departmental supervision directly

associated with the work—and departmental submissions to treasury board should clearly indicate that all such costs have been included in the estimate.

This was the subject of a long discussion with the deputy minister of National Defence, who was present at the last meeting. You will note the committee's recommendation, which I regard as a very important one because during that discussion there emerged a variety of definitions of what constituted costs, which was misleading many of us, including treasury board when they were endeavouring to exercise their judgment. However, I am happy to say that on the basis of information furnished by the deputy minister of national defence they have, in fact, taken action along these lines to remedy the matter by issuing fresh instructions and fresh definitions, which we find satisfactory.

The CHAIRMAN: Next is: "non recovery of expenses incurred in lending crown-owned property".

Mr. HENDERSON: In paragraph 40 of its report, the committee noted that, to the extent of \$4,925, expenses that had been incurred by the Department of National Defence in connection with an informal arrangement to lend landing barges to the Canadian national exhibition association had not been recovered from the association, and in paragraph 42 the committee recommended:

that where public property is being loaned to private organizations or individuals there be a formal written agreement setting forth the terms under which the loan is being made.

In paragraph 42 the committee requested that the Deputy Minister of National Defence report to next year's committee regarding the final result of the matter.

I suppose all the committee will need to know here is that appropriate amendments have been made to the regulations to ensure that a case such as we are dealing with here will not occur again and also that the case in question has, in fact, been settled.

The CHAIRMAN: The next item is: "subsidization of medical student officers".

Mr. HENDERSON: In paragraph 45 of its report, the committee, in relation to this question, recommended:

that the recovery of the cost of subsidization should be in cash unless the circumstances are exceptional. In such circumstances, the period of payment should not extend beyond three years. The committee is also of the opinion that when an officer is released under an instalment payment arrangement, any amount of deferred pay that had accumulated to his credit should be applied against the indebtedness.

My comment here, I would suggest, indicates a satisfactory solution to this problem. It may be that you have some questions, but that is the way I thought perhaps they might view it.

The CHAIRMAN: Are there any comments?

Mr. SLOGAN: Is this a subsidy which is repayable in the event they leave the service, or what is it?

Mr. HENDERSON: May I ask Mr. Millar to speak to that. He is my supervisor in charge of national defence.

Mr. B. A. MILLAR (*Audit Director, Office of the Auditor General*): I am sorry but I did not quite hear the question.

Mr. SLOGAN: Would you explain the subsidization and repayment principle involved?

Mr. MILLAR: Of course, there is provision for repayment if they leave the service before a certain number of years. There is provision for recovery of the cost, of course, if an officer leaves the service before a certain number of years.

Mr. SLOGAN: But if he stays in the service it is forgiven?

Mr. MILLAR: Yes. If he stays in the service there is no recovery.

Mr. McMILLAN: Are you referring to medical students who graduate and service in the armed forces after graduation?

Mr. HENDERSON: I understand they are.

Mr. MILLAR: Yes, that is correct.

The CHAIRMAN: If there are no further questions the next subject we deal with is: "unusual exercise of executive discretion in awarding of annuity under Canadian Forces Superannuation Act".

Mr. HENDERSON: The committee recommended in paragraph 47 of its report: that consideration be given to amending the wording of subsection (4) of section 10 of the Canadian Forces Superannuation Act in such a way that in no case should a pension be awarded to a person released on grounds of inefficiency that would be greater than that to which he would have been entitled had he retired voluntarily.

This was a case of a pension being paid to a person who was released on grounds of inefficiency, which was a greater pension than would have been the case had he retired voluntarily, and I think the members present who participated in that discussion will recall it.

I am able to tell the committee that the policy guide has been revised to ensure, as far as the present provisions of this act are concerned, that no awards will be made to persons released on grounds of inefficiency which would be greater than this award in connection with voluntary retirement. They do have in mind a suitable amendment to the Canadian Forces Superannuation Act to completely eliminate anomalies, and it is my information that this may be proposed at some future date. Beyond that I do not think there is much more that this committee or I can do on the matter, sir.

The CHAIRMAN: If there are no questions the next subject is "interim allowances for lodgings and meals on transfer".

Mr. HENDERSON: In paragraph 50 of its report, the committee recommended, following consideration of an allowance paid by the Department of National Defence for lodging and meals (while his house was being redecorated following his return to Canada) to a member of the armed services who had rented his home during a tour of duty outside Canada:

that in future, expenses incurred under similar circumstances, should be treated as personal expenses with no reimbursement being made out of public funds and that the regulations be clarified accordingly.

The nature of this recommendation is repeated on page 11, and I would suggest to the committee that the action taken by the department here would seem to be a reasonable one.

The CHAIRMAN: Next is: "reimbursement to servicemen for lease termination payments".

Mr. HENDERSON: The committee included the following observation in paragraph 52 of its report:

The committee was informed that, although the circumstances might not be identical, the lease form used by officers of the R.C.M.P. provides for only a 30-day termination clause. Having this in mind, and believing that the situation with regard to rental accommodation has improved significantly in recent years, the committee recommends,



that the maximum period with respect to which reimbursement be made to members of the forces, in the circumstances mentioned, be reduced to the equivalent of one month's rent in future.

Comment by the AUDITOR GENERAL: In response to my request to be informed of the action taken by the department with regard to the foregoing recommendation, the deputy minister advised on February 14, 1962 as follows:

A review of claims during the period April to September, 1961 has been made and it has been established that only a minority of service personnel are involved in the maximum payments for lease termination. There were 2,684 claims paid during this period at an average cost of approximately \$110 per claim. This figure appears to be reasonably close to one month's average rent and it is considered that there is little abuse under the present regulations. It is considered desirable to retain the maximum period of three months to protect the small number of service personnel who may require it.

While the committee's recommendation to limit reimbursement for lease termination payments to one month's rent might be imposed by departmental regulation, the judge advocate general has pointed out that landlords have a legal right to expect certain compensation for termination of a lease before its normal expiration period and that the crown is justified in reimbursing servicemen in this regard as the expense involved is a legitimate cost of a move.

The possibility of insisting that leases involving servicemen contain a clause requiring only 30 days notice of lease termination has been examined. The judge advocate general has given the opinion on this question that even the federal parliament has not the constitutional authority to enact such a provision.

To ensure that personnel are fully conversant with the main aspects of obtaining accommodation on the civilian market, a tri-service order is being prepared to provide a guide for unit commanding officers in counselling incoming personnel.

During our audit of the 1961-62 and 1962-63 accounts, numerous cases were noted where reimbursement continued to be made on the basis of the maximum of three months rent permitted by existing regulations.

I have quoted here from a letter I received from the deputy minister of National Defence, which indicates, that on the average, reimbursements to members of the services were reasonably close to one month's average rent, as he says. However, members of the committee will note the regulations were not amended to provide for reimbursement being made on the basis of one month's rent, as the committee had recommended. Perhaps you will also note that in my reports for both 1962 and, may I add, my upcoming 1963 report, there are a number of cases brought forward where reimbursements are continuing to be made on the basis of the maximum of three months' rent, which these regulations permit and to which the committee in 1961 directed its criticism. So I am afraid I cannot report to you that this matter has been disposed of in the way the committee felt it should. However, we shall be coming to this item when you consider my 1962 report, at which time you might feel you would like to have the deputy minister of National Defence present to speak on it.

The CHAIRMAN: In other words, there has not been that full compliance with the committee's recommendation made in the past and it will be coming up in this report to which you have referred.

MR. HENDERSON: When you move into my 1962 report you will hit this item.

The CHAIRMAN: Thank you.

There is no discussion on this item, having in mind that we will be likely dealing with it in more detail later.

May we pass on to "national defence administrative regulations and procedures".

Mr. HENDERSON: In paragraph 53 of its report the committee referred to the subject matter of all the paragraphs contained in the Auditor General's report bearing on the Department of National Defence and made the following observation: "On the basis of its experience in prior years with armed forces expenditures, and on the basis of the evidence given at this year's meetings, the committee has noted with concern the continuing tendency on the part of some branches of the armed services toward incurring ill considered and wasteful expenditures. Notwithstanding the frank and helpful testimony given by the Deputy Minister of National Defence, the committee recommends,

that the Minister of National Defence enquire into this situation with a view to assuring that there is an appropriate improvement in administrative regulations and procedures."

Well, I am commenting here that the service concerned did step forward and take action to amend the regulations and otherwise to deal with the point which I have brought forward and which you discussed. I think you can assume here that to the extent that action had not been taken or might have still be in progress at the end of the year will be reported to you in my 1962-63 report. This will be tabled, as I mentioned earlier, around the first of the year.

The CHAIRMAN: And that also can be the subject of comment by the deputy minister.

Mr. HENDERSON: Yes. If he is asked to be present at that time he could deal with that.

The CHAIRMAN: We now move to "determination of "sale price" for sales tax purposes".

Mr. HENDERSON: Paragraph 54 of the committee's report referred to the long-established administrative practice of computing sales tax on less than the sale price when goods are sold directly to retailers or consumers, and by wholesalers directly to consumers; and in paragraph 56 the committee recommended "that the existing method of valuation be provided with statutory sanction".

I wrote to the Deputy Minister of National Revenue, Customs and Excise, asking to be informed as to what progress had been made with regard to this matter, and his reply on February 5, 1962 included the following:

You will recall that there is a difference of opinion as to whether or not any statutory enactment is necessary or desirable in this regard, but if it is decided to take any action I will be pleased to apprise you in due course.

I have, however, received no further communication on this matter from the deputy minister.

The act has not been amended in this respect. However, the royal commission on taxation, established on September 25, 1962, has terms of reference sufficiently broad to permit consideration of this matter.

This was initially raised, I believe, both by my predecessor some years ago and also by the committee on sales tax in 1955, the chairman of which was the present chairman of the royal commission on taxation, Mr. Kenneth Carter.

I have quoted here the comment of the deputy minister of National Revenue. This is found at the top of page 13.

The CHAIRMAN: Have you any suggestions to make on this particular item?

Mr. HENDERSON: Well, as you can see, there is a difference of opinion as to whether or not any statutory enactment is necessary or desirable. I have taken the view, and I think I am correctly quoting the sales tax committee of 1955's view, which was the same, that if this practice is to be continued it should be given statutory sanction rather than left to the discretion of the minister. You might feel you would like to go into the matter further. It will come forward when you consider my 1962 report.

The CHAIRMAN: It will be considered in that report?

Mr. HENDERSON: The item is brought forward in my 1962 report.

Mr. SLOGAN: Was your recommendation that the tax be paid on the retail sales tax value when it was bought directly from a wholesale or discount house?

Mr. HENDERSON: Without getting into the techniques, this is a question of giving statutory approval to the present practice which would involve an examination, as you suggest, of the present practices. At the present time decisions are made at the discretion of the minister and his deputies.

Perhaps Mr. Long would say a few words in this connection.

Mr. SLOGAN: What is the present practice? Is the present practice that the consumer has to pay the sales tax on the retail value, or just what is it?

Mr. HENDERSON: On the wholesale value.

May I ask Mr. Long to speak to that.

Mr. G. LONG (*Audit Director, Office of the Auditor General*): The problem here is that the act levies a tax on the sales price; there can only be one sales price, which is the price at which the article is sold. But, in view of different methods of distributing various commodities sometimes it is a manufacturer's price, sometimes a wholesaler's price and sometimes a distributor's price, and sometimes it could be the retail price, so if the act were strictly observed the tax would have to be levied at different levels, but the department has tried to keep the tax even on a commodity regardless of the manner in which it enters distribution.

Mr. SLOGAN: Is that not more or less suggesting a combine. You are asking that instead of having any freedom of interpretation to sell an article at different prices it should be taxed at a suggested price, with which I disagree.

Mr. LONG: No. If a manufacturer sells an article direct to a consumer he would collect the tax on his sale price. This price could be different with respect to an article that is sold to a distributor or wholesaler, and the tax on the same article could vary, if you took the strict interpretation of the act.

Mr. SLOGAN: The sales price is based on the manufacturers'?

Mr. LONG: The sales tax is based legally on the sales price.

Mr. ROCK: Which sales price?

Mr. LONG: The price at whichever level the goods are sold. For example, take a furnace; it might come directly from a manufacturer or it might enter consumption through a wholesaler. The price on which the manufacturer, if he is collecting the tax, and if he is selling direct, has to collect tax would be different from the price on which the tax would be collected from the wholesaler. What they have tried to do is to see that the tax on a furnace, regardless of the manner in which it came into distribution, would be the same. This seems to be a very practical way of doing it and no one has suggested it should be changed, but everyone realizes that this is an expedient which is not quite covered in the law.

Mr. ROCK: You are actually taxing indirectly the product that is made by the manufacturer?

Mr. LONG: Yes.



Mr. McMILLAN: Is there any definition of the words "wholesale price" in the act?

Mr. LONG: I do not have the act with me but I think it defines only the sales price, the price at which goods are sold.

Mr. RICHARD: To whom?

Mr. LONG: The act does not go into the ramifications of it.

Mr. RICHARD: But, sold to whom?

Mr. LONG: To anybody, at whatever level the tax happens to be imposed—it depends where the licence is. If a manufacturer does not sell anything except through a wholesaler or through some other step in the distribution process it could be the wholesaler who is licensed. But, he may be selling direct or through a wholesaler or through a distributor, and then you have all different levels of price at which the sales tax licensee might be selling the goods.

Mr. ROCK: You are better off as it stands now with the manufacturer. What if a manufacturer sells directly to a wholesaler?

Mr. LONG: If a manufacturer sells exclusively to a wholesaler I do not believe he would necessarily have a licence because the wholesaler might be licenced and buy tax exempt and collect the tax when he sold it.

Mr. RICHARD: Has the wholesaler a licence as well?

Mr. LONG: Well, I hope I am not getting too far afield here, but the licence is at the point where the tax has to be collected before the goods enter into consumption. It is not a retail sales tax but comes into the picture before that.

Mr. SLOGAN: In the case of automobiles is the sales tax collected by, say, the Ford Motor Company of Canada, by the distributor or by the dealer?

Mr. LONG: I think I would say that it is not by the dealer; but whether the Ford Motor Company does it or the distributor, I am not sure.

Mr. HENDERSON: This item will come up under my 1962 report. In a recent discussion of this point with the department, they thought some consideration might emerge as a result of the meetings of the royal commission on taxation.

The CHAIRMAN: At the time, if the committee so feels, we could have the deputy minister of that department appear, who would be in a position to answer any details of these questions which are very pertinent. We shall now continue with the next item.

Mr. HENDERSON: In paragraph 58 of its report, the committee referred to the practice of establishing the fees of Colombo plan experts on the assumption that the income therefrom will be subject to tax, and then seeking to recover portions of the fees in those instances where the income is not subject to tax—and in paragraph 59 the committee recommended:

that consideration be given to revising the present practice to one under which lower fees would be paid to the experts in the first instance, on the assumption that income tax would ordinarily not have to be paid by them, and reimbursement would be made in a case where it transpires that the expert does in fact have to pay income tax.

The director general, external aid, informed me on February 13, 1962 that, following detailed discussions, agreement was reached on changes which resulted in a system of offering advisers fees on the following basis:

- (a) Persons recruited for periods of service abroad anticipated to exceed 183 calendar days are offered a fee net of income tax on the assumption that income tax would ordinarily not have to be paid by them. Should it transpire that the adviser is taxable, an appropriate amount in relation to the emoluments stipulated in the adviser's agreement with this Office is payable as reimbursement from aid programme funds.

- (b) Advisers whose assignments are for periods of 182 days or less receive a fee assumed to be subject to taxation, the adviser being responsible for direct payment to the Department of National Revenue of such taxes as may be levied.

I think perhaps the members of the committee might regard the solution of this problem as satisfactory.

The CHAIRMAN: "Awards under the Pension Act."

Mr. HENDERSON: In paragraph 62 of its report, the committee referred to several classes of cases of awards under the Pension Act where it appeared that unusual administrative practices had developed, and it recommended:

- (a) that in any case in which a pension overpayment has resulted due to failure of the pensioner to disclose income, the amount of the overpayment should be made a matter of record in the accounts, and deleted therefrom only with appropriate statutory authority;
- (b) that in determining the amount of pension to be awarded dependent parents, the commission should recognize the responsibility of the surviving children to assist their parents, and take into consideration their ability to do so;
- (c) that, having regard for subsection (2) of section 40 of the Pension Act, consideration should be given by the Canadian Pension Commission to the legality of cases where, as mentioned in the final subparagraph of paragraph 72 of the Auditor General's Report, one death can result in payments being made concurrently to a widow (under section 37), children (under section 26) and parents (under section 38).

I wrote to the chairman of the Canadian pension commission on February 1, 1962 asking to be informed of the steps taken by the commission in relation to the above recommendations of the committee.

The chairman advised me concerning recommendation (a) above that when the commission rules there is an overpayment this is made a matter of record in the accounts and, if uncollectable, the amount is deleted therefrom only with appropriate statutory authority. However, no action has been taken to record and collect overpayments in the type of case referred to in our 1960 report (paragraph 72) as follows:

Since the amount awarded to an applicant in a dependent condition is based upon the additional income he requires to maintain himself, it follows that if the applicant had failed to disclose income, this would result in an overpayment. However, in a number of instances in which undisclosed income was noted and drawn to the attention of the commission, the pension was simply adjusted currently and no overpayment was considered as having occurred.

With respect to recommendation (b), the pertinent section of the act (section 38(6)) was amended in 1961 to provide that the commission might deem any children residing with the "dependent parent" to be contributing to his or her support not less than ten dollars a month, but the commission feels that there is no obligation for them to take into account the ability of other children to assist and no cases have been observed where this was done.

Concerning recommendation (c), the commission reports that it has carefully considered the legality of cases where one death results in more than one pension and is of the opinion that such payments are legal and in accord with the act. It pointed out that the present section 40 was contained in the original act of 1919 and has continued unchanged since then although certain other sections, such as 38(2), were inserted to make provision for classes which were

otherwise excluded. The commission is of the opinion that, as the Act provides definite authority for these pensions, the general directions of section 40 could not be considered to fetter sections 26, 37 or 38. It would seem that consideration should be given to amending the legislation with a view to eliminating these inconsistencies.

The information I have given here was provided to me by the chairman of the Canadian pension commission. I do not think it quite disposes of the recommendations made by the committee. It is just possible in view of the fact that this matter comes up again in my 1962 report, and will therefore come before you, the committee, may feel that they would like to have the chairman of the Canadian pension commission appear to provide further information regarding the points involved.

The CHAIRMAN: Did the chairman appear before the committee which made the recommendation?

Mr. HENDERSON: I believe Mr. Anderson did appear? I am informed that his assistant appeared at that time.

The CHAIRMAN: "Payments to civil servants additional salary."

Mr. HENDERSON: In paragraph 65 of its report, the committee referred to the practice of relying on section 60 of the Civil Service Act to exempt a position from the operation of section 16 of the Act in order to make a payment to a public officer additional to his salary. In view of the fact that an opinion of the deputy minister of Justice on the matter was given as long ago as March 23, 1948, the committee recommended in paragraph 66 of its Report:

that the civil service commission request another ruling from the deputy minister of justice, unless it transpires that the new Civil Service Act clarifies the situation.

In response to my enquiry as to whether another ruling on the question had been requested by the civil service commission, I was informed by the chairman of the commission on February 2, 1962 as follows:

With reference to your letter of February 1st about the recommendation of the public accounts committee that the civil service commission obtain another ruling from the deputy minister of justice on the practice of using Section 60 of the Civil Service Act to exempt a position from the operation of Section 16, the Commission took note of the committee's proviso—"unless it transpires that the new Civil Service Act clarifies the situation"—and in view of the terms of Section 14 of the new Civil Service Act, to become effective on April 1st of this year, did not request another ruling from the deputy minister of justice.

The new Civil Service Act came into force on April 1, 1962 and the audit office is closely watching the application being given to sections that might have a bearing on this matter. No similar cases were noted in the audit of the 1962-63 accounts and we would suggest to the committee that further consideration need not be given to the matter unless we reintroduce it in a future report.

I thought that the members might be disposed to pass this item on the understanding that I would continue to report any further cases of this sort.

The CHAIRMAN: You are closely watching the applications?

Mr. HENDERSON: Yes sir.

The CHAIRMAN: "Unauthorized salary payments beyond retirement age".

Mr. HENDERSON: In paragraph 68 of its report, the committee recommended:

that consideration be given to requiring departments, by regulation, to verify the age of their employees before they near retirement age, and



prescribing some form of penalty to be assessed against employees who have deliberately concealed their age while continuing to work beyond the normal retirement age without appropriate authority."

The deputy minister of finance provided me with a memorandum dated March 14, 1962 which included reference to the public service superannuation regulations promulgated by order in council P.C. 1962-137 of February 1, 1962, and commented that "it is hoped by all concerned that the application of these new regulations will reduce to a minimum the type of case which was the reason for this recommendation". While the first point in the committee's recommendation has thus been dealt with, the deputy minister's memorandum noted that no action had been taken towards prescribing a penalty to be assessed against employees who deliberately conceal their age.

The new public service retirement regulations may be expected to reduce to the minimum the type of case referred to here. But it is a fact that no penalty has been provided for any cases where employees deliberately conceal their ages.

The CHAIRMAN: "Losses reported in the public accounts."

Mr. HENDERSON: In paragraph 72 of its report the committee referred to the Auditor General's comment that the annual statement of losses published in the public accounts, as required by section 98 of the Financial Administration Act, did not include all losses suffered by the Post Office Department during the year. In paragraph 73 the committee recommended:

that, in future, statements be included annually in the Public Accounts, listing Post Office losses and showing recoveries effected in a manner similar to other departments.

This recommendation was accepted by the Department and all Post Office losses which had not been recovered or reported previously were included in the listing of losses in the Public Accounts for the first time in 1960-61.

My comment here says that the committee's recommendation was acted upon.

The CHAIRMAN: "Responsibility for losses of public funds".

Mr. HENDERSON: Paragraph 74 of the committee's report contains a reference to an amendment that was being considered by the Department of National Defence to its regulations "to make it plain that an officer or man who has public funds in his custody is responsible to make good any loss that may occur, unless he is able to give a satisfactory explanation of the loss". In paragraph 75 the view was expressed that such an amendment seems to be an entirely reasonable one, and the committee recommended "that appropriate action be taken by the department without further delay".

This was discussed at some length in the 1961 committee, and, as you will see, while certain routine amendments were made to the regulations, there was no change in the matter of holding the custodian responsible for monies in his care. The regulations of the Department of National Defence still provide that an officer or man should make reimbursement to the crown only when the crown has proved that the loss of public funds is a result of a wilful act or negligence on his part. I do not think this meets the committee's recommendation. The theory behind this is that where a man is given funds by his employer to handle, then that man should be held responsible for those funds. As you will see, it is not quite that way.

The CHAIRMAN: It is a question of onus in one case where the onus is on the crown, to show there has been a wilful act or negligence, while in the other case, as you suggest, there should be onus placed on the individual.

Mr. HENDERSON: I put the view before the committee in 1961 that it seemed to me very basic that if an employee is responsible for his employer's funds

he should be held responsible and accountable for them. I could not see the fine distinction of leaving it up to him to prove that it was not his fault, and therefore he did not have to make restitution for any loss.

The CHAIRMAN: We shall have an opportunity to question the deputy minister about it.

Mr. HENDERSON: When the deputy minister is present, if it is your wish, I would like to see that item included, if you agree.

The CHAIRMAN: "Unusual payment from a special account of Canadian wheat board".

Mr. HENDERSON: In paragraph 76 of its report, the committee stated that it was glad to learn that the board of grain commissioners is now moving to have all elevators carry all-risk insurance which would include coverage for unusual eventualities such as the loss suffered in 1959-60 when substantial quantities of wheat, oats and barley were tumbled into lake Superior.

The deputy minister of agriculture informed me on March 15, 1962 that "all public terminal elevators, except those operated by the National Grain Company and the Manitoba, Saskatchewan and Alberta wheat pools, are now carrying all-risk insurance".

I think that it should be regarded as cleared.

The CHAIRMAN: "Advances to the exchange fund account".

Mr. HENDERSON: In paragraph 77 of the committee's report, reference is made to the \$136 million net loss at March 31, 1960 on dealings in gold and foreign securities, and on revaluations of gold and currencies, since the establishment of the exchange fund account—and in paragraph 78 the committee recommended:

that the Minister of Finance be requested to submit to the committee at the next session a report dealing with the desirability of writing off the amount in the accounts, with appropriate parliamentary authority, for example against the reserve for losses on realization assets. The importance of the problem is such that your committee believes that at the next session of Parliament it should give special attention to the problem, including the question of transferring annually to the consolidated revenue fund the realized profits or losses from trading operations and re-evaluation of holdings.

This is a very large subject and I believe that your direction in 1961 was that the Minister of Finance be requested to submit a report on this matter at the next session. As we do not have a representative of the minister here today, you might care to stand consideration of this one over, because I do believe they have a statement which they wish to make on the matter.

The CHAIRMAN: "Unemployment insurance fund".

Mr. HENDERSON: In paragraph 81 of its report, the committee recommended: that the Auditor General give consideration to the advisability of increasing the scope of his examination of unemployment insurance fund transactions in the field.

In paragraph 82 the committee made reference to the fact that the unemployment insurance commission is not required by statute to prepare annual financial statements subject to audit, and the committee recommended:

that the preparation of such statements, along the lines of those published at page P-19 of the public accounts for 1959-60, be made a statutory responsibility of the commission, and that they be required to be reported upon by the Auditor General.

In paragraph 116 of the Auditor General's 1961 Report it is stated that "a moderate increase has taken place, and is continuing, in the number of field examinations made by the Audit Office of regional and local offices of the unemployment insurance commission". In the 1962 Report (paragraph 72) we reported that, by reason of a staff shortage, it had not been possible to extend this increase in our field audit work further during 1961-62. Although a staff shortage still existed, arrangements were nevertheless made to increase the number of offices visited in 1962-63, by curtailing other work.

No action has been taken in response to the recommendation of the committee that the preparation of the statements of the Fund be made a statutory responsibility of the commission and that they be required to be reported upon by the Auditor General. However, pending the provision of such statutory direction, the chief commissioner of the unemployment insurance commission has informed me of the commission's readiness to present annual financial statements along the lines suggested and to record his approval thereon, and for my part I have examined the statement with respect to the 1961-62 and 1962-63 fiscal years and have appended my certificate to each.

It is of interest to note that the report of the committee of inquiry into the Unemployment Insurance Act, tabled on December 20, 1962, states in its conclusions and recommendations (paragraph 172) that:

we think it would be desirable that there be a statutory requirement on the unemployment insurance commission to prepare a financial statement showing in a full and complete manner the condition of the fund at the end of each fiscal year and the income and expenditure occurring during the year. We think also that this statement should be certified by the Auditor General and should be placed before Parliament as soon as may conveniently be done following the date of its preparation.

You will note that I say here that I have increased the number of examinations of field officers of the unemployment insurance commission, which is along the lines of the committee's recommendation. By arrangement between myself and the chief commissioner annual statements of the unemployment insurance commission are now made available to me, and I certify them. However this has still not yet been made a statutory requirement, although this has been recommended by the committee.

The CHAIRMAN: "Crown corporations".

Paragraph 86 of the report noted that "the committee was glad to be informed by the Auditor General that he intends to include in his future reports to the House of Commons more detailed information covering the financial operations, and related data, of crown corporations".

Mr. HENDERSON: In respect of crown corporations you will note as you proceed through my 1962 report that detailed information is shown there regarding crown corporations.

The CHAIRMAN: "Departmental operating activities".

Mr. HENDERSON: Paragraph 87 of the committee's report reads:

The committee feels that it would be desirable, in order that members have a clear understanding of the true financial results of departmental trading or servicing activities, such as those of the Department of Public Printing and Stationery and airport operations of the Department of Transport were over-all financial statements included in the public accounts without undue cost or staff increases.

Your recommendation here was a very good one indeed. It provided that better financial results of departmental trading or servicing activities be undertaken, and you will note in my comment what I have to say about it. In short,



not very much progress have been made on your recommendation in this regard; and I go on to suggest that it would be of assistance were the treasury board more active in supporting the proposals which have been made.

Subsequent to my making this recommendation I can say that the Glassco commission came out very strongly urging that this be done, because, after all, it is pretty difficult to know how a department is operating, particularly if it is engaged in trading activities, if you do not have an adequate financial statement from which to judge those operations.

It is within my knowledge at the present time that steps are being taken by the treasury board towards implementing some of Glassco's recommendations, and that they are in fact now working to endeavour to bring that about. But this, of course, as Mr. Steele explained, is a very long program. However we propose to continue to press for this because of its obvious importance. The matter will come forward in your consideration of my 1962 report.

Mr. RICHARD: Mr. Chairman, I move we adjourn.

The CHAIRMAN: I think that is very wise.

Motion agreed to.

The CHAIRMAN: We have made good progress. I hope you will remember 11 o'clock Monday concerning which members from the Montreal area indicated that they would have less difficulty if we fixed the hour at that time, so that they might be here 100 per cent. I am sure that we can meet the same objection from those outside Montreal. The meeting is now adjourned.

HOUSE OF COMMONS

First Session—Twenty-fifth Parliament  
1963

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STANDING COMMITTEE  
ON  
**PUBLIC ACCOUNTS**

*Chairman:* G. W. BALDWIN

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MINUTES OF PROCEEDINGS AND EVIDENCE  
No. 3

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Public Accounts, Volumes I, II and III (1962)

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MONDAY, NOVEMBER 18, 1963

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WITNESSES:

Mr. W. H. Wilson, Deputy Postmaster General; Mr. A. M. Henderson, Auditor General of Canada; and Mr. Marcel Faribault, Member, The Canada Council.

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1963

## STANDING COMMITTEE ON PUBLIC ACCOUNTS

*Chairman:* Mr. G. W. Baldwin

*Vice-Chairman:* Mr. W. H. McMillan

and Messrs.

Basford,	Harkness,	Rock,
Beaulé	Lessard ( <i>Saint-Henri</i> ),	Rondeau,
Berger,	Loiselle,	Ryan,
Cameron ( <i>High Park</i> ),	McLean,	Scott,
Cameron ( <i>Nanaimo-</i>	McNulty,	Slogan,
<i>Cowichan-The Islands</i> ),	Muir ( <i>Lisgar</i> ),	Smith,
Crouse,	Noble,	Southam,
Drouin,	Nowlan,	Stefanson,
Dubé,	O'Keefe,	Starr,
Eudes,	Olson,	Tardif,
Fane,	Pigeon,	Tucker,
Fisher,	Pilon,	Valade,
Forbes,	Regan,	Wahn,
Frenette,	Ricard,	Whelan,
Gendron,	Richard,	Woolliams—50.
Gray,	Rinfret,	
Hales,	Rochon,	

M. Slack,

*Clerk of the Committee.*



## MINUTES OF PROCEEDINGS

MONDAY, November 18, 1963.

(4)

The Standing Committee on Public Accounts met at 11.05 o'clock a.m. The Chairman, Mr. G. W. Baldwin, presided.

*Members present:* Messrs. Baldwin, Berger, Fisher, Fane, Forbes, Gray McMillan, Muir (*Lisgar*), O'Keefe, Pigeon, Regan, Richard, Rinfret, Scott, Southam, Valade, Wahn, Whelan.—(18).

*In attendance:* Mr. A. M. Henderson, Auditor General; and Messrs. B. A. Miller, D. A. Smith, M. Laroche, A. B. Stokes and G. Long from the Auditor General's office. *From the Post Office Department:* Mr. W. H. Wilson, Deputy Postmaster General; Mr. M. Lysack and Mr. F. Pageau. *From the Canada Council:* Colonel Douglas B. Weldon, Chairman; and Messrs. Marcel Faribault and Trevor Moore, members of The Canada Council.

The Committee resumed consideration of the Auditor General's Follow Up Report on action taken by departments and other agencies in response to recommendations made by the Committee in 1961.

Mr. Wilson was introduced, made a brief statement on the item of "Second Class Mail", and was questioned. Mr. Henderson also answered questions on this subject.

Upon conclusion of the questioning of Mr. Wilson, the Chairman thanked the witness and he was retired.

Messrs. Weldon, Faribault and Moore, of The Canada Council were introduced and Mr. Faribault made a comprehensive statement on the item "Allocation of Profits and interest earned on University Capital Grants Fund" and was questioned thereon, assisted by Messrs. Weldon and Moore.

Mr. Henderson commented on Mr. Faribault's statement, explained his position on this matter, and was questioned.

The Chairman thanked Mr. Faribault, and at 1.15 o'clock p.m., the Committee adjourned until 9.00 o'clock a.m. on Friday, November 22, 1963.

M. Slack,

*Clerk of the Committee.*



## EVIDENCE

MONDAY, November 18, 1963.

The CHAIRMAN: The meeting will come to order. Before I start with the first item of business may I remind the members that from today on we will be dealing with the Auditor General's report in connection with the 1961-62 public accounts. I would hope that all members have brought with them the volume which I think they all should have, because this will be our base of operation. It is on this report that we will be making comments and inviting members of other departments to appear before us. If any other material is required at a meeting which is to ensue I will do my best to try to anticipate this in advance and to send notice out to members so that they will know what will be coming in.

We have with us today Mr. Henderson and Mr. Wilson, the deputy postmaster general. The item we will be dealing with is the one which was stood over last week and which appears on page 3 of the follow-up report by the Auditor General. This has to deal with second-class mail and the fifth report made by the committee in 1961 which said in part in dealing with revenues, that while revenues were \$6 million the cost appeared to be \$28 million. The committee recommended that the department review the problem to the end that a more realistic policy be adopted. You will see a copy of a letter from the deputy postmaster general, Mr. Wilson, which appears at the bottom of page 3 and thereafter. Mr. Wilson has been good enough to come here with members of his staff, and I think I will open up the discussion by asking Mr. Wilson if he will deal with this particular matter in the light of the 1961 report and what has happened since then.

Mr. W. H. WILSON (*Deputy Postmaster General*): Thank you, Mr. Chairman. I have little to say other than that the situation is basically as it was reported by the Auditor General. It has been the policy of the government from as long back as we can go in history to have favourable rates for newspapers and periodicals which we classify as second class matter. It has been the policy not to make this particular class of mail pay its own way. At the present time the latest figures we have would show a revenue of approximately \$8 million and an operating deficit of about \$26 million on this particular class of mail. We have almost completed a very detailed study of our second class tariffs, but no decision has been made in regard to a revision of these tariffs, particularly as the royal commission on publications known as the O'Leary report is still being considered by the government.

I think, Mr. Chairman, that is about all I can give in broad outline at the present time.

The CHAIRMAN: Before we ask for questions probably Mr. Henderson might like to make some comment on what Mr. Wilson said and his views on it. We will then ask for questions on the item.

Mr. A. M. HENDERSON (*Auditor General*): Mr. Chairman, I do not think I would have any comment to add to what Mr. Wilson has said. As you know, it was in December a year ago that he sent me the information contained on page 4, and I have set out at the top of page 5 certain developments that have taken place since he wrote that letter. Members may have some questions that they would wish to put to him on these points.



The CHAIRMAN: Are there any questions from any members with regard to the scope of this particular item and the comment which Mr. Wilson has made dealing with the second class mail and the revenue position?

Mr. PIGEON: What I will say is my personal opinion. I am not in favour of changing the tariff and I would prefer that it be kept as it is now. I am not in favour of increasing the tariff. I know that probably Mr. Henderson does not share my view on this question as it is a question of revenue. However, sometimes, in my opinion, it is better for the Canadian public to make a sacrifice in certain fields because publications are in the public interest. These are my personal views.

Mr. McMILLAN: I should like to ask a question about the Canadian edition of *Time* magazine.

Mr. WILSON: The Canadian edition of *Time* magazine is printed and published in Montreal and it is mailed at the regular statutory rates that are granted to publications that are published and mailed in Canada.

Mr. McMILLAN: If it were mailed in the United States, then I suppose we would get no revenue.

Mr. WILSON: This is true. If it were mailed in the United States we would get no revenue, but many United States publications are mailed in Canada and we do receive revenue on this basis.

Mr. McMILLAN: Why do they do that? Is it cheaper to mail here?

Mr. WILSON: For two reasons: one is that they do get a slightly reduced rate which is higher than the rate we charge publications mailed in Canada but slightly lower than the rate they would pay if mailed in the United States. The second reason is that by being mailed in Canada we think they get a better service.

Mr. McMILLAN: If the rates were raised, would the publications be mailed in the United States?

Mr. WILSON: I believe it is a correct assumption that if our rates for the United States' publications mailed in Canada were raised to any extent, the difference between our rates and those in the United States would not pay them to ship by truck and train into Canada, mainly Toronto, in which case they would mail them in the United States and we would receive no revenue. This is quite correct.

Mr. SCOTT: I want to ask Mr. Wilson a question. You mentioned that this has been the policy for many years. I wonder what is the reasoning behind the policy.

Mr. WILSON: I am not quite sure that I can answer this question. This has been the policy of many governments, and I think I would be assuming that I knew the reason why the government of one particular day decided to subsidize this class of mail and why subsequent governments continued this subsidy.

I would be of the opinion that originally this was put in for the dissemination of news and of articles relating to news. I think in latter years—and this is only my opinion—it was to assist Canadian publishers in selling their products.

Mr. SCOTT: This applies to all publications and newspapers?

Mr. WILSON: Yes. There is a different series of postage rates depending on the number of publications mailed, the size of their subscription list—in other words, the number they mail and the frequency that they mail. But these rates apply to all publications within the different classifications of the rate structure.

Mr. REGAN: Mr. Wilson, how many years has this deficit existed in this type of mail? A good many years, I gather.

Mr. WILSON: As long as I remember, and I have been in the postal service for 35 years.

Mr. REGAN: My point is this: is the size of the deficit increasing only because the volume of second class mail being shipped has greatly increased, or has the size of the deficit increased because of greater handling costs; whereas the rate has remained stable for a lengthy period?

Mr. WILSON: The rates have remained stable for over ten years. The increased deficit is due to two things: one, that at certain periods there is increased volume of this type of mail; and, two, increased costs, both as far as personnel is concerned, salaries, as well as transportation costs.

Mr. REGAN: The suggested increased rates at this time leave the publishers in relatively the same position so far as the portion of the actual cost they are paying, or the amount of subsidy they would be receiving is concerned as they were ten years ago.

Mr. WILSON: I do not think I am in a position really to answer that question. I do not know.

Mr. REGAN: In other words, this is a kind of two-pronged question.

Mr. WILSON: Yes.

Mr. REGAN: It is one thing to increase the rates to get an amount of subsidy which in principle has been handed along the publishers as a relatively constant factor.

Mr. WILSON: That is right.

Mr. REGAN: That is quite a different thing from an increase merely to overcome a deficit which has increased because of volume.

Mr. WILSON: That is right.

Mr. REGAN: Have you any further views on that?

Mr. WILSON: No, I do not believe I have, because while our deficit has gone up in latter years, our revenue from these areas has slightly increased, maybe not quite to the same percentage. But as to how it has affected the publishers and their costs, I would not know.

Mr. REGAN: Finally, do you feel that an increase would have any seriously adverse effect on the publishers?

Mr. WILSON: Again, I would have to assume from what I have read, particularly in the O'Leary report, that it would have.

The CHAIRMAN: Now, Mr. Fisher.

Mr. FISHER: I have three questions. Are you aware of any representations which came to the Postmaster General from Canadian publishers within the past year, since this question came up for discussion?

Mr. WILSON: Might I ask a question first? Do you mean in connection with the lowering of rates?

Mr. FISHER: I mean in connection with the suggestion to increase the rates in order to cover the deficit.

Mr. WILSON: No, I am not aware of any representations which have been made to increase the rates. Where representations have been made they were to implement certain recommendations of the O'Leary report on Canadian publications.

Mr. FISHER: In your letter to the Auditor General on page 4, the fourth paragraph from the bottom, you refer to \$484,000; can you split that \$484,000 per year, to separate (1) the repeal of the local delivery rates on second class

mail and (2) free mailing privileges throughout Canada for the first 5,000 copies per issue of the non-profit, cultural and 'little magazines'?

Mr. WILSON: Not in any definite figures, but I would say that almost the entire amount would not be for the little magazines, but rather for the large publications.

Mr. FISHER: In other words, if this recommendation with regard to little magazines were implemented, it would have a very small effect on their revenue?

Mr. WILSON: That is quite true.

Mr. FISHER: Have you made any estimate at all as to what the recommendation might be in terms of expanding the volume of little magazines?

Mr. WILSON: We have not made this study, because we do not know what effect it would have on the little magazines. If my memory serves me correctly, the total amount of postage they would save would be less than \$30,000 a year. The major part of the \$484,000 would be on the large type of magazines for local delivery, and it is doubtful whether this, spread over the number of little magazines, would really have too much effect.

Mr. FISHER: Have you received any representations from farm organizations with regard to this particular matter of second class mail rates in terms of the problems that they are up against through dwindling advertising revenue, smaller circulation, and the fact that some of them have gone out of existence over the past few years?

Mr. WILSON: Not too much, we may have had one letter. As you know, agricultural magazines do have a preferred rate at the present time of one-and-one-half cents a pound. But I cannot recall any representations that this be lowered.

Mr. FISHER: I cannot see anything in here where the Auditor General specifically singles out a particular rate? Is there any reason for that?

Mr. WILSON: For the lower rate?

Mr. FISHER: No. I mean the Auditor General did not make recommendations with regard to a special rate for farm publications.

Mr. WILSON: I do not know.

Mr. HENDERSON: No, there is no particular reason, Mr. Fisher. The size of the deficit and the factors surrounding it seem to me to warrant setting it forth for consideration of the house. I recognize this has been a continuing problem for many years. In fact it had its origin some years ago when my predecessor had some similar observations to make. It seems apparent that the deficit cannot be reduced very well unless there is a general upward revision of rates of postage, which would have to be considered by parliament.

Mr. FISHER: Mr. Pigeon has expressed an opinion, and so would I. I think Mr. Regan mentioned the word subsidy, and it would appear that in effect we have a form of subsidy here. It seems to me that this subsidy is necessary until we have evidence to the contrary regarding the financial position of most of the publications that take advantage of it. I would like to know from this committee whether the daily newspapers have made a position analysis in this field, because as most of us are aware, many of the major publishers in particular are in good viable position economically. I do remember that the *Globe and Mail* made some representations within the last 18 months on this matter. Their point was that even with the low rate, even when there is an effective subsidy, the volume of daily newspapers by mail is less in any operation. That is, the cost of packaging and handling the whole distribution was such that it is not a part of their circulation they look forward to, and there is a tendency for almost every daily newspaper, as I remember the argument, to cut down on their mail



circulation. There is no great advantage in terms of bringing them advertising revenue and it is a costly part of their operation. I would like to bring that to the attention of the members of this committee. This is a substantial argument against having the rate raised since many distant parts of the country, whatever opinions they may have of the daily newspapers, are able because of the lower rate to get hold of papers; whereas if there was an increase in rate it would become more beyond their ability to pay than is the case now.

Mr. PIGEON: In connection with this question of second class rates, would you compare the distribution in Canada with that in the United States, England and France?

Mr. WILSON: I can give you some information in connection with the United States but not the exact rate structure because it is a very complicated system which is broken down into zones and is quite different from our rate structure. But, they are almost in exactly the same position as we are in regard to the deficit, if you take the size of the country and compare it to Canada.

Mr. PIGEON: They have approximately the same deficit then?

Mr. WILSON: Yes. The last figure we had showed that it ran over \$200 million.

Mr. PIGEON: And, would that be perhaps for the same reasons we have here in Canada?

Mr. WILSON: I would assume so.

The CHAIRMAN: Have you a question, Mr. Southam?

Mr. SOUTHAM: Well, Mr. Chairman, Mr. Pigeon asked the question I was going to ask. I was interested in his remarks on what the policy over the last number of years has been in connection with this deficit position. I was wondering what the situation was in other countries, specifically as it pertained to the United States and England. But, I assumed they would be in the same position for the same reasons, and I was interested to hear your comment in that connection. As I said, Mr. Pigeon already asked the question I was going to put.

The CHAIRMAN: Mr. Wahn, you are next.

Mr. WAHN: Mr. Wilson, what is included in the phrase "second class mail"? What does it cover?

Mr. WILSON: Mainly newspapers and what we refer to as periodicals, but also within this broad classification in publications which consist mainly of news or articles relating to news, or current topics, political commentaries and so forth; and if any publication of any type which comes through the mail consists largely of this type of editorial or news items they are granted second class privileges.

Mr. WAHN: How do you get these second class privileges; do you apply for them and bring in a sample of the type of publication?

Mr. WILSON: Yes.

Mr. WAHN: Do you have any breakdown of what publications are the major beneficiaries of this deficit or subsidy? For example, do the daily newspapers get most of it or do the national magazines such as *Macleans* or the United States publications which come over? Have you any breakdown of who are the beneficiaries on a cost basis resulting from the deficit that we have?

Mr. WILSON: Yes, to this extent; we know the amount of revenue we receive from each particular class of publication. With respect to the larger mailers, of course, when you are handling each piece on a loss basis, the more that is mailed the larger the subsidy, if you wish to use that term.

Mr. WAHN: Therefore, the largest beneficiaries are the largest companies presumably.

Mr. WILSON: Yes. For instance, to give a percentage basis of what we handle by mail, 24 per cent are dailies. Actually, 28 per cent are either dailies of one type or another, dailies with over 10,000 circulation or under 10,000, and this breaks down further into weeklies and semi monthlies and so forth. I would not be able, without going into very great detail, which would require us to go to our accounts, to break this down, to a particular magazine. The semi monthly and monthly magazines, which would cover many of the Canadian type magazines, account for about 21 per cent of the revenue we collect.

Mr. WAHN: Can the rates be increased without negotiation with other countries or are we governed by the international postal union, to which reference has been made?

Mr. WILSON: To a point we are governed by being a member of the universal postal union, but within the rate structures allowed by the union there is a minimum and maximum rate, and it would be possible in some instances to increase the rate of postage on a magazine or newspaper from Canada, say, to a foreign country, but this does not represent where the \$26 million loss has taken place; the great bulk of this is for delivery in Canada.

Mr. WAHN: What percentage increase would you have to have to break even on your costs?

Mr. WILSON: Well, we collect a little over \$8 million in revenue from this entire second class field and our cost was about \$32 million, so it is \$8 million as compared to \$32 million.

Mr. WAHN: You would have to quadruple your rates to break even?

Mr. WILSON: Yes.

Mr. SCOTT: Mr. Wilson, I want to ask you a question concerning the mailing of newspapers overseas to the troops. On a recent tour with a naval group we found there is virtually no news at all of Canada getting through to our Canadian troops; in fact, the best way to make contact with them is to send press releases to the *Stars and Stripes*, which everyone seems to read. Has the department any plans in mind of financing the sending of Canadian newspapers to our own Canadian troops who are stationed at different places in Europe?

Mr. WILSON: Not to my knowledge and, as far as I know, this never has been discussed, nor have we had any representations in this connection.

Mr. SCOTT: What rate is put on the mailing of newspapers overseas at the present time?

Mr. WILSON: The domestic rate, if it is addressed to a Canadian field post office.

Mr. SCOTT: And at present you say there are no plans to alter this situation?

Mr. WILSON: Do you mean to give a lower rate?

Mr. SCOTT: Yes.

Mr. WILSON: No, not that I am aware of.

Mr. FORBES: Has the post office department taken any action on the recommendations made by the royal commission on publications? I am referring to page 4, the fourth paragraph, which makes reference to a terminal payment by the United States to assist in collecting this imbalance? Have you taken any action along that line?

Mr. WILSON: No sir, not in connection with terminal payments. The main basis on which the universal postal union is founded—and there are now about 125 countries belonging to the universal postal union—is this. You must prescribe to two basic requirements of the union; one is free transmission of letter mail and the second is free transmission of the printed word; this would be in either printed matter or second class mail such as newspapers or periodicals

which, internationally, are classified as printed. Canada has subscribed to these two parts of the convention of the universal postal union and we would be unable to charge terminal payments on this class of mail coming from any other country and still remain a member of the universal postal union.

Mr. FORBES: Did the royal commission consider this?

Mr. WILSON: They did recommend this.

Mr. FORBES: Were they not aware of the condition to which you refer?

Mr. WILSON: I do not know.

Mr. McMILLAN: Do you know of any cases in which terminal payments are made in any country at all?

Mr. WILSON: On printed matter?

Mr. McMILLAN: Yes.

Mr. WILSON: Not that I know of. I assume, because it is a requirement to be a member of the union, that every country—and there are 125 at the moment which are members—could allow the free transmission of this type of mail without terminal charges.

Mr. PIGEON: May we have the list of second class publications and the amount of money paid in, in four or five years, or something like that?

Mr. WILSON: This would be possible, but it would be a tremendous job to give it to you. However, anything is possible.

Mr. PIGEON: If it would involve too much, I would withdraw my question.

Mr. WILSON: Speaking roughly from memory, there would be close to 2,000 publications and we would have to go through them.

Mr. HENDERSON: In connection with Mr. Forbes' question, it may be of interest to note that one of the recommendations of the Glassco commission was there be an appropriation provided to meet this deficit. So, possibly in any future consideration by this committee of the Glassco recommendations this well might return to the table.

Mr. MUIR (*Lisgar*): I was going to ask what the deficit would be in terms of the excess of American mail handled by Canadians over Canadian mail handled by Americans.

Mr. WILSON: These are fairly round figures. Our loss on United States magazines, including those mailed in the United States for delivery in Canada, and those United States publications which are mailed in Canada for delivery in Canada, probably would be somewhere between \$4 and \$5 million. The number of Canadian magazines going to the United States would be only a portion of this. I would estimate probably about one third.

Mr. MUIR (*Lisgar*): Other than through terminal payments, there is no means legally of collecting this difference in the cost.

Mr. WILSON: No, sir. In 1961—I believe this is the year—there was an agreement between the United States and Canada to increase the rate of postage on this type of mail between the two countries. Previous to this the magazines from either country had to be accepted at the domestic rate, the news rate is the printed matter rate of about 8 cents per pound. At that time we then raised our mailed in Canada rate to 5 cents per pound. As a result of this we now are receiving about \$1½ million a year more in revenue from United States publications mailed in Canada than we were previously.

Mr. MUIR (*Lisgar*): In other words, the difference in the mailing rate has encouraged them?

Mr. WILSON: Yes, sir.

Mr. FISHER: It is my understanding that in the last year the British post office raised its rates on second class mail?



Mr. WILSON: This is correct.

Mr. FISHER: Do you know what effect it has had? I remember reading of the various protests that went up. Do you know how effective it has been, firstly, from the post office point of view in terms of revenue and, secondly, whether there has been any indication that it has had a poor effect upon circulation?

Mr. WILSON: I do not know how it has affected the industry in the United Kingdom. I do not think that domestically in Britain the rates were raised to any great extent. But, previous to a year ago, Britain had a very, very low rate of postage on papers coming to Canada; a rate on the transportation of newspapers to Canada which was extremely low. This was raised up to the regular printed matter rate. While we do not have any definite figures, I would imagine this has cut back tremendously on the number of British newspapers that are now coming into Canada by mail.

Mr. McMILLAN: How much do you think we could raise the second class rate before it would discourage United States publications from mailing within Canada.

Mr. WILSON: At the moment I do not think we could raise it at all. We have figures to indicate that about 3 cents is practically taken up by the additional cost they incur in shipping these into Canada, and the additional handling from the place of publication. We are rather of the opinion that it is not only the amount they save, but the better service they get by mailing in Canada.

Mr. McMILLAN: You said earlier that the second class rate looked after the publication of news and editorials. What about scientific magazines?

Mr. WILSON: We consider those in the same way as news.

Mr. McMILLAN: They come under the same rate?

Mr. WILSON: Yes.

Mr. WAHN: When magazines or newspapers are mailed from another country to Canada, on what basis do we share in the postal revenue which results from that?

Mr. WILSON: We do not share at all.

Mr. WAHN: We deliver these without cost to the country of origin. Assuming that more magazines come into this country than go out, there is a net loss.

Mr. WILSON: Yes.

Mr. WAHN: We are subsidizing the foreign shipper.

Mr. WILSON: Yes. If the volume coming in from a foreign country is greater than we are sending out—which certainly is the case in respect of the United States—then, of course, we are bearing a heavier delivery charge than the United States would for the smaller number going in.

Mr. WAHN: If we raised the second class rate from Canada, we would not cover those people shipping items into Canada.

Mr. WILSON: That is quite true; we would not.

Mr. McMILLAN: In other words, by raising our rate we well might have less income.

Mr. WILSON: In respect of the mailed in Canada rate, which is now 5 cents per pound for United States publications and on which we receive something over \$2 million in postage each year, if this were raised to anything above the present 5 cents, we would lose the mailed in Canada revenue and the article simply would be mailed in the United States.

Mr. REGAN: Is the United States rate the same as the Canadian rate at the present time?

Mr. WILSON: Between the two countries, yes; it is 8 cents per pound.

Mr. REGAN: It is the same whether it is mailed in Canada or in the United States to Canadians?

Mr. WILSON: No. A package mailed in Canada for delivery in the United States pays 8 cents per pound; one mailed in the United States for delivery in Canada pays 8 cents per pound. This is the case in respect of *Life Magazine* which is sent by train or truck to Toronto and mailed at Toronto. The rate in this respect is five cents per pound.

Mr. REGAN: I may be stressing the obvious but, in that event, an increase in this country would favour United States mailing points of origin for United States publications that are mailed from the United States as against a wholly Canadian publication with delivery in Canada?

Mr. WILSON: That might possibly be true.

Mr. FORBES: Why would these people mail these publications in Canada rather than in the United States if our rate is not favourable?

Mr. WILSON: They would not do so if our rate was not favourable, but at the moment our rate is favourable. There is a spread of three cents per pound which allows them to pay the trucking or rail charges to the Canadian post office from which they mail the publication. From figures we have received, this difference barely covers the additional handling and transportation involved in moving this material to the Canadian point of mailing, but there is a fraction of a cent which, in respect of large mailings, is attractive to them.

Secondly, we know that they receive better service by entering into the Canadian mail system at Toronto, Winnipeg or Montreal.

Mr. FORBES: Why should we provide a service to the benefit of these publications and create a deficit in our department?

Mr. WILSON: If we did not provide this rate these people would merely mail their publications in the United States and we would receive nothing.

Mr. SOUTHAM: Mr. Chairman, I should like to ask a supplementary question. It has become obvious to me from the remarks which have been made that other countries face this same problem. It appears to me that this over-all problem should be solved under the international postal union through an agreement as to rate increases or adjustments, rather than to attempt to solve this over-all problem by individual countries. It seems obvious that if Canada increased its rates we would receive automatic pressure from people in other postal departments of other countries through the international postal union; is that right?

Mr. WILSON: In the first place, I do not believe there is any other country which belongs to the union in exactly the same position as we are, because of our proximity to the United States. We receive a tremendous volume of printed matter which originates in the United States. I do not think there are any other two postal administrations which face quite this same problem.

In respect of the rates for second class mail, I think we should consider this in two ways. Firstly, in so far as our own domestic publications are concerned, as Mr. Pigeon mentioned, we should consider the effect a substantial increase in rates would have on our own domestic publications, which now have difficulty in breaking even. Secondly, the situation in regard to all publications originating in the United States is quite different. We should not confuse the rates of postage we charge for our own publications for mailing in Canada with those to which I have referred.

I realize that the greater the volume of publications coming from outside the country, the greater the difficulty in respect of our own publications.

There is possibly one avenue that can be further explored, and I refer to a further increase in the rate of postage for the exchange of this type of mail between Canada and the United States. In other words, we now have a

rate between the two countries of eight cents a pound. If this rate were increased to perhaps twelve cents a pound, what effect this would have on American publications mailed in the United States, I do not know, but I do know that we could then raise the five cent mailed in Canada rate to a higher amount and obtain more revenue from this particular group of publications which are mailed in Canada.

This change would have to be negotiated between the two countries because this has to be settled by agreement. Such negotiation is permitted in the present convention between the two postal administrations, Canada and the United States.

Mr. FORBES: Is that the principle involved in the recommendation regarding the terminal payments? Would such a change solve the problem?

Mr. WILSON: I do not think the recommendation in respect of terminal payments is possible, but this would be one way of increasing the rates between the two countries.

Mr. VALADE: Mr. Chairman, I should like to ask a question for clarification. Perhaps this question has been asked and, if so, I hope you will let me know.

I should like to know what the difference is between the volume of second class mail from Canada to the United States and from the United States to Canada. This information would assist us in coming to some conclusion in respect of this matter.

Mr. WILSON: I have just checked my memory and find it is right. The volume of Canadian publications and printed matter going into the United States is approximately one quarter of that which comes from the United States into Canada.

Mr. VALADE: Following up that question, we certainly must come to some understanding through discussion with the United States in respect of this particular problem. As you have stated, the problem is singular in this respect in Canada because of our proximity to the United States. I am referring to this certain amount of abuse in respect of American publications, which creates a deficit paid by the Canadian people. I wonder whether it would be possible to come to an understanding through discussion with the United States postal department in order to settle this problem by an increase or some compensation in respect of postal rates?

Mr. WILSON: Certainly the present convention allows for further negotiations on any particular rate of postage. There is nothing to stop Canada from negotiating a higher rate on postage in respect of this particular type of mail between the two countries.

Mr. MUIR (*Lisgar*): Do you know whether the United States is losing money in regard to second class mail?

Mr. WILSON: Yes the United States is losing money in respect of second class mail in approximately the same proportion.

Mr. MUIR (*Lisgar*): The United States may desire to raise its domestic rates as well.

Mr. WILSON: The United States has raised its own rates in recent years in respect of domestic mail, but not in respect of publications coming into Canada. Their increase is taking place through a three phased operation. One increase took effect in January of this year; one is to take effect in January of 1964 and another in January 1965. Their rates will have been increased substantially through this operation.

Mr. MUIR (*Lisgar*): How do the rates in the United States compare with the rates in Canada?



Mr. WILSON: The rates in the United States are considerably higher than the rates in Canada.

Mr. BERGER: Mr. Chairman, I should like to ask a question in respect of the possibility of an over-all increase. Am I right in assuming that there is little or no advantage to a general increase because of the fact that as soon as we gave effect to such an increase there would be pressures and complaints through the U.P.U.? Am I right in that assumption?

Mr. WILSON: As the Auditor General pointed out in bringing notice to the \$26 million loss in respect of second class publications, whatever is done in this regard will not really be changed by the U.P.U. because, of the total amount, there is probably less than \$5 million chargeable to United States and foreign publications. The greater portion of this loss results from the handling of our own publications mailed in Canada. Obviously any increase in respect of rates between the United States and Canada, which would assist somewhat, would not solve this problem of the \$26 million deficit.

Mr. McMILLAN: When you state that our volume of second class mail is one quarter of that received from the United States, are you including the United States publications mailed in Canada as domestic mail?

Mr. WILSON: No, we include those in the United States publications figures.

Mr. McMILLAN: But they are not on a domestic rate?

Mr. WILSON: They are not really on the domestic rate; it is a higher rate.

The CHAIRMAN: This appears to be all the questions we have for Mr. Wilson. I am sure I express the feelings of the committee, Mr. Wilson, in saying that we appreciate your coming here with members of your staff to throw light on this subject which has agitated the minds of the committee over several years. We are very happy you were able to be here and that you have been of such assistance to us.

Mr. WILSON: Thank you very much.

The CHAIRMAN: We have one or two small items, but first I would like to deal with an item about which I made an understanding on your behalf. This appears on page 20 of the follow-up report. I am referring to the matter of the Canada Council.

I do not think this committee will reach the stage of dealing with the financial reports of the Canada Council; those will be a matter, I imagine, for consideration by the reconstituted committee next year.

The aspect of the Canada Council with which I would like the committee to deal now is that of allocation of profits and interest earned on the university capital grants fund. In paragraph 92 of its fifth report, 1961, the committee noted that it had been informed that these profits and interest had not yet been allocated to the provinces or the universities, and the committee recommended "that the Council seek to conclude this matter without further delay".

We were fortunate in that three members of the Canada Council were in Ottawa and arranged to be here today at 11:30. I will now ask them to come here so they might be introduced.

I would like to introduce to the committee Colonel B. Weldon of London, Ontario, who is chairman of the Canada Council; Mr. Faribault of Montreal, who is a member; and Mr. Trevor Moore, who is also a member of the Canada Council.

I would ask the committee to turn to page 20 of the follow-up report from which they will see that this particular aspect deals with two matters which engaged the attention of our committee in 1961. There you will also see the Auditor General's comments. One item, of course, is the question of allocation of the profits and interest of the university capital grants fund and the other is the question of the need for additional resources.

I will ask Colonel Weldon to make some comments on this for the benefit of the committee, or to ask such other members of the Canada Council as he may wish.

Mr. B. WELDON, (*Chairman, Canada Council*): This matter has been uppermost in our minds for nearly four years. Mr. Faribault is the chairman of our committee which has been handling this on our behalf, and he will speak for the Council.

The CHAIRMAN: Thank you very much.

Mr. PIGEON: I would appreciate the opportunity of addressing questions to Mr. Faribault in French, as I think would other French members. I would therefore ask that you ensure that the interpretation system is in order.

Mr. FARIBAULT: Gentlemen, this is a rather involved matter; as Colonel Weldon has said, it has taken up the time of the Canada Council for nearly four years. The Council has come to a unanimous conclusion upon it. If you will bear with me I will try to explain to you the situation in some detail, keeping strictly to the question of the interest and profits. The need for further funds will be put forward to the committee subsequently by Colonel Weldon.

As you will recall, the Canada Council Act provided for two funds, one of which is the endowment fund, with which we are not concerned at the moment, the other being the university capital grants fund, to which a sum of \$50 million was transferred by the government in accordance with a special provision of the act. This money was to be distributed for special purposes. The special purposes were the erecting of university buildings, but there were two restrictions, and these appear in section 17 of the act. One restriction is to the effect that the grants from the Canada Council will not exceed one-half of the cost of construction. The second restriction reads as follows:

That the grant shall not exceed in any province an amount that is in the same proportion to the aggregate of the amounts credited to the university capital grants fund as the population of the province, according to the latest census, is to the aggregate population, according to such census, of those provinces in which there is a university or other similar institution of higher learning.

This we interpreted to mean that if we replaced the phrasing by figures we would not give to the universities of any province more of the \$50 million money than the ratio of the population of that province to the population of the whole of Canada, and I do not think this has ever been disputed. A tentative allotment of the \$50 million was made on that basis at the outset when the Canada Council came into existence in 1957. However, it soon became apparent that some universities were ready to erect new buildings and other universities were not ready to build; that new universities were being founded across Canada; that in one province, namely the province of Quebec, the universities were not allowed, for constitutional reasons, to ask for their share of the fund, and although a solution was later agreed upon in that respect it took a great deal of time. It also became apparent that for those reasons the fund could not be distributed before the census of 1961; and therefore the moneys had to be invested. The moneys were invested; the investments were sold, and the resultant funds were reinvested. The actual amount of interest earned on these investments today aggregates some \$12 million, and the profits made through investments, sales and reinvestments aggregated more than \$3,300,000, which means that the \$50 million with which we started was actually increased for distribution purposes to very close to \$65 million.

In the wording of the section which I have just quoted, you will have noticed that there is no mention of interest or profits; but there is mention of profit in a further section of the act which states that moneys which are the

proceeds of an investment will be credited to the fund. Therefore, in so far as profits are concerned there was no difficulty; they had to be credited.

There remained, however, a question of interest, regarding which not a word is said in the act. There remained also the question of the census.

In very short terms, on the supposition that we started distributing money in 1958, one year after the Canada Council was founded and had the money handed over to it, and that we handed over to the province of Newfoundland, for instance, the full amount to which it was entitled according to the ratio of population of that province to the whole population of Canada, that amount would have been \$1,293,000. It became quite clear that on this basis Newfoundland would benefit because it was the first province in which a university was built and one-half of the cost would be contributed by the grant.

Assuming that nothing else is in the record, would it be reasonable to say that this university, having received at the very moment of inception the full share of the \$50 million to which it was entitled would also be entitled to share in the profits or interest produced by the balance of the fund, over \$58 million, since it had the advantage of its own university having received the money and not being entitled under the act to receive more than the ratio of its population to the whole population of Canada?

Now council thought a great deal about it and council decided that this was a rather complicated question which would become more complicated if the census, or the basis on which the allotment was made, were to change as it actually did change in 1961. So council decided to postpone the decision because if all the moneys had been distributed before 1961 it would mean that we would have a simple additional allotment to make. This would be restricted, but it is quite clear in council's mind that surely some provinces were increasing in population faster than others and therefore there would be a different basis for allotment if we waited after 1961. Therefore, at the start we just stated that we would not do anything with the interest and profits. I must, by way of a parenthesis, add that nobody contemplated the profits being as high as that because this was the result of extremely good management, if you recall that the sums were to be invested strictly and solely in dominion of Canada bonds.

Now, this is the first point. You can see that there is a big question in regard to the attribution of interest and also a great difficulty was going to arise if you were to change the basis of the census. We therefore had to seek some enlightenment on that and we asked for legal advice.

Legal advice was given to us to the effect that in the act the latest census meant the latest census at the time any distribution is made, any allocation of money is made to a particular university. This meant that, according to the legal view, the basis was to change in 1961. The argument is that the law always speaks in the present; you must always read it as if it were talking at the time you are acting under it. This meant untold difficulties to us because, as you very well know and as I have been telling you, Newfoundland had received the full quota allocated to it while other provinces were on the way to getting it. If their population was to go below the ratio of the 1956 census, then we certainly could not recall the money and it would mean that we would go contrary to the act because according to the time at which the payment had been made some province would have received more or less than was contemplated by the act. Therefore, in view of these consequences we asked for further legal advice. One opinion was secured confirming the first one and another opinion was secured contradicting the first one.

The second legal opinion contradicting the first one argued that although at first glance the first opinion was correct, nevertheless the consequences were such that they could never have been contemplated by parliament and



that the true construction of an act of that sort being necessarily broad, in order to implement the intention that was in the minds of the legislators, it was completely ridiculous to give the strict interpretation taken by the first opinion. Therefore the true interpretation was that we had to stick to the 1956 census, and that when the act stated the latest census it was the latest census at the time the act was passed and not the latest census at the time any distribution was made. I must add that this is an argument which is still stronger in the French version of the act because the words are not the same in English as in French. In the English language we use the phrase "the latest", and according to the literal interpretation that means the most recent at the time of the distribution, while in French the act says "le dernier". Now, "le dernier" does not mean that; it means the last at the time you speak.

Now, in the same sentence where you have the use of "the latest" in English you have also a reference to the wording "according to such census", which would seem to mean that the word "such" would be used because there might be a change in the census. However, in the French version you do not find the word "such"; you have the words "the said", which is in French "le dit". Therefore, if you take the French version, it is clear that it must be the 1956 census, while, if you take the English language, there is difficulty whether it is one or the other. But the way for council to get out of that difficulty was to see what was the equitable way. And to do that council inquired from a firm of chartered accountants, who said that there were two ways of doing it outside of the legal view just expressed, on which they would not comment, of course.

The two ways were as follows: so far as interest is concerned, let us say that we pay to Newfoundland \$1,293,000. Then from that moment you charge interest on it as if it were an advance. And when you come to the distribution of the balance of interest, actually earned, at that time you attribute the interest charged to each of the provinces, thus each one receives what it is entitled to. This argument, of course, is that the province in question has benefited from the use of the money which was paid to it, this being the same money on which you figure the interest. And the benefits which it actually received are probably much higher than those which can be figured in actual money from the rate of interest. But then you do this in an equitable way and within each province, because there are very many institutions benefiting. (I think the number is 82.) You do the same thing, because you would not give to one university in a province more money rateably than the number of its students warrant, or its importance, or whatever the formula used by council would warrant at any one time.

The other way, according to the consultant accountants, was to say: if you do not do it that way, you might split up the amount between the provinces and make separate funds, if you wish, and credit interest on balance. But there is nothing in the act which entitles you to do that. For two reasons the consultants agreed that it was preferable to treat the payments as advances bearing interest, and provisionally, this was accepted by the council.

This went on until the census of 1961 showed what would have been the extent of the discrepancies, according as one formula or the other was used. But we were still faced with the difference in opinion. So the matter was set up before the council in every agenda since February 1960, up until November 1963.

We had studies made to show if it were possible to devise a formula which would take into account changes in the census. Although it might have been possible theoretically, it certainly would have raised a tremendous number of questions. It would have been extremely cumbersome, and it would in point of fact have been unworkable, because you could not ask the council at any one time to only say yes or no when a university comes along and says: "I am

ready to build a dormitory, would you give us half of the amount?" You have to say in one and the same moment: is there any money in the fund for that province, for the universities of that province, and if so what is the amount which is available for this one university in that one province? So, council devoted a great deal of attention to that and came to the conclusion that actually the only equitable way to treat these provisions of the act was to use two fixed points because all allotments must be by reference to a fixed basis.

If you change the basis you have no allotment whatsoever; you may have been wrong in the first or even the second one. You may have given more under the first one than under the second one, and if you hold your interest back, then the question is how are you going to allocate the interest, according to the first formula or the second, or shall you do it only under the second because your interest is going to be distributed after 1961? And, are you going to take into consideration the benefits received?

Now, council justified its opinion on a number of points; the first one was that there was one legal opinion which coincided with that view precisely, after studying the implications and the extraordinary results entailed by the other opinion. Secondly, it was acknowledged by the consulting accountants that the procedure suggested was actually one followed by all trust companies in the distribution of estates.

Whenever people share in an estate and one receives a share in advance he is charged the interest and the thing is brought back into "hotchpot" to make a division at the end which would be truly equitable.

Thirdly, one of the legal opinions which was against this on a general principle was nevertheless that this procedure was a procedure followed under the devolution of estates act in England, in Ontario and, presumably, in all the common law provinces, and it was the procedure followed in the civil law countries and also under the civil law of the province of Quebec. The argument of this legal adviser was that it was proper to use this formula in respect of the universities within one province but he felt it could not be done between provinces; in other words, he agreed it was equitable within one province but he felt the wording of the act was not such as to give rise to such an identification between provinces. His arguments were twofold. He said there was no general principle of law in that respect.

Council examined this and thought it should demur from that because it was shown it was applicable in cases of intestacies and that it was not necessary to have a special clause in the act. The legal argument was that unless a special clause was put in the act it is not applicable. Council was not convinced by that.

The second point was that council considered itself as trustee for the funds, and this is very clear from the act. In certain respects, council is not an agency of parliament, which is stated in so many words in the act; council is said in the act to be a charitable organization which is equivalent to a charitable trust under common law and council must distribute the moneys without any profit to itself between institutions predetermined. So, there did not seem to be any doubt in the minds of the council that it had to do just what trustees would do it in the ordinary course of business. Therefore, as between one opinion which said you must stick to what the legal adviser thinks is the true construction of the act, and the other one which says you must give it a broad interpretation in order to implement the intent of parliament, there is no question in the mind of council, and in so far as trustees are concerned they must go to equity.

Those members of the committee who have had legal training know very well that a trust is a creature of equity; it is administered by tribunals of equity, and anybody who goes to equity must do equity. Therefore, council, in two instances, decided on that basis that it had to take the equitable view,

and therefore had to distribute the money according to the 1956 census by adding to the calculation of the sums the interest on the sums already received by universities, or paid within one province, and this gave the result I have tried to indicate to you; this is the legal situation and the argument.

The last resolution of council in that respect was unanimously passed in August last. I would like to point out that council is composed of 21 persons and within that four year span the composition of council has practically changed altogether. That means that the persons who considered what they had to do in 1960 and those who considered it and came to the same conclusion in 1963 are not the same persons by any means. The matter had to be put before the members of council probably five times, each time the composition of council changed. This is the situation in point of fact in respect of the practical consideration, and the position taken by council.

If you are interested, we can give you the figures, or the changes that would occur, as between the application of the one formula and the other; but this was not the basis on which council determined its decision. It was strictly on the basis of equity, as I have just tried to explain to you.

Col. Weldon asked me to complete this presentation by adding that council thought it had to have some direction in that regard, if it could secure it. Therefore, council placed the whole matter before the Prime Minister on two occasions; one under the Conservative government and one under the Liberal government, with Mr. Diefenbaker and Mr. Pearson respectively. In both cases the answer was given that since council is not an agency of parliament or of the government it is not proper for a minister, even the Prime Minister, to give any opinion; secondly, that it was not proper for council to ask for an opinion from the Department of the Attorney General and, therefore, that council, which was intended to be autonomous, had to make its own decision. These consultations were carried out, and it was afterwards that its decision was taken by council.

The CHAIRMAN: Before any further questions are asked I think perhaps following the very comprehensive statement made by Mr. Faribault, Mr. Henderson would like to comment, and then the members of this committee will be in a position to question both these gentlemen.

Mr. HENDERSON: Mr. Chairman, perhaps I might be allowed to explain my position on this matter, because in my comment in the follow-up memorandum I did not make any critical observation.

Mr. Faribault has given a very clear and fair account regarding the circumstances behind this rather complex matter.

If I might just say a few words, I should like to explain the opinion which I have in this connection. I have not yet expressed this opinion for the reason that up to March 31, 1963, no money had been distributed in any way in respect of the accumulated interest and profits. However, as a result of the August, 1963 decision, revised figures are now being prepared by the Council and member institutions are being notified as to their entitlement under what we might describe as the hotchpot or trust fund approach.

At March 31, 1963, there was approximately \$26 million in the university capital grant fund, of which \$14,280,000 represented interest and profits realized since the inception of that fund.

One of the bases of the allocation of this interest and profits has, as Mr. Faribault has explained, been under consideration by the council for quite some time without a decision having been reached between the alternatives presented.

It was explained that they were still delaying their decision because the public accounts committee in 1961 commented as it did under its then paragraph 92, and as you will have noted from page 20, they asked that the council seek to conclude this matter without further delay.



As Mr. Faribault has explained, in August, 1963, the council reconfirmed a resolution which it had passed in February, 1962 but, and I repeat, without distribution of any money thereunder. It reconfirmed its resolution that the 1956 census be accepted as the basis for distribution of this interest and profits of the university capital fund, and that the hotchpot or trust fund approach be accepted for distribution of the interest and profits of this total fund.

Having noted in the minutes the adoption of the August 1963 decision, and following our study of the text of the legal opinions the Council had received, we entertained doubts whether the proposed method of distribution would in effect be in conformity with the Canada Council Act.

As Mr. Faribault has said, the act does not provide for any interest charge on grants made or created; however, such interest resulting from the adoption of the hotchpot or trust fund approach would have to go into the accounts.

For the same reason it seems to me that it is doubtful whether the "latest census" referred to in section 17 of the act was intended to mean other than the census which at any time the statute is read happens to be the then latest census. I have reviewed the legal opinions which, as Mr. Faribault stated, were received in August, 1960, which was of the same view that I myself had expressed, and of 1961, which was the same.

However, they obtained another opinion in 1961, which did in effect agree with the hotchpot approach, stating that the "latest census" must be the census existing when the act was assented to. I, therefore, informed the council that I had submitted the facts of this situation, including the legal opinions concerned which Mr. Weldon and his associates were good enough to furnish to me, to my own legal adviser who, in matters of this kind, is the deputy attorney general, and that I had been informed that he supports the position I have taken in respect of the matter.

I repeat that inasmuch as no steps have been taken to expend any of the money up to March 31, 1963, it has not been necessary for me to make any reference to this in my report on the examination of the accounts of the Canada Council. However, I shall be faced with that situation, presumably if the method Mr. Faribault describes is followed, by the time I come to examine the accounts for the year ending March 31, 1964.

The CHAIRMAN: Thank you, Mr. Henderson.

Mr. PIGEON (*Interpretation*): I think the members of this committee would be unanimous in recognizing the fact that Mr. Faribault's submission has been very complete and clear.

I believe this situation demonstrates that the federal government is wrong in attempting to interfere directly or indirectly in the field of education, which is within the sole jurisdiction of the province. To my mind the Canadian University Foundation is an accomplice in this situation. The federal government is grievously at fault, and the proof of that is what is happening here. The foundation has been an accomplice in that.

I would like to ask Mr. Faribault if he does not believe that henceforth it would be preferable for the Canadian government to find a formula which would remove from the Canada Council this indirect or direct participation in the subsidizing of Canadian universities. The money could then be remitted directly to the provinces which would distribute it to the universities according to their policies and their formula, preventing future recurrence of the problem. This has proven that the federal government is wrong in interfering in the field of education. To my mind education is a matter reserved to the provinces.

(Text):

Mr. SCOTT: That surely is not a fair question.

The CHAIRMAN: Mr. Faribault might answer that, but I think we are turning to a question of policy and our terms of reference limit us to con-

sideration of the particular issue. I will ask Mr. Faribault to reply if he can, and then I hope the questions will be kept within our terms of reference.

Mr. FARIBAULT: I could answer if Mr. Pigeon had asked me for my personal opinion, but I am spokesman here for the Canada Council and it might be embarrassing for the Canada Council if I were to give an opinion.

Mr. PIGEON: I posed the question because the difficulty which arises at the present time may recur in the future. We might possibly have found a solution here and the committee might put that solution forward; it might suggest a formula in order to correct this problem.

Mr. GRAY: On a point of order, I think this line of questioning is not within our terms of reference. We are here to discuss a very clear matter; that is, the methods of allocation of the moneys by the council. I do not think this is a matter for politics.

Mr. RICHARD: On a point of order, I do not think we should discuss whether this council should have been formed or whether it is properly constituted by the act. I think Mr. Pigeon's question could have been put in this way: Would the problem that arises now have arisen in the same way if the grants were made directly to the provinces? I suppose it would have arisen in any case.

The CHAIRMAN: Before Mr. Faribault deals with that, I would be inclined to rule, on the point of order just raised on the direct question, that Mr. Pigeon's question takes us outside our terms of reference, but that the question as just asked would I think be a reasonable question.

Mr. FARIBAULT: In answer to Mr. Richard, I would say that in my view it would be simpler within one province for the very good reason that you have to refer to a general principle of law in order to determine that.

The legal advice we received from Mr. Beament which was not in favour of the Canada Council interpretation was to the effect that it was quite proper as between the institutions of one province, and that probably the best solution was to charge interest, as we had wanted to do, in accordance with the trust fund formula. It therefore seemed clear that there would have been no discussion within one province.

Mr. MOORE: I would like to add that if the distribution had been made to the provinces we might still be in the same position.

Mr. VALADE: Mr. Chairman, I would like to say on that point that the remarks which were made by Mr. Faribault in one of his statements were as follows, that the fund could not be distributed before 1961—or is it 1951, I do not recall the date—because of constitutional problems or because of the constitutional aspects. This is the major issue. This brings us back to the problem that there are funds there that were not distributed because of the constitutional aspect. The problem then goes back to the council and they have to decide either that this money will have to be given away or that it will be tied up in the fund. What is the legal authority of the council from then on? I think this is the basic problem.

Mr. Faribault talked about the accumulated interest and the profit from the fund itself. This brings me back to the question I want to ask: are these accumulated profits and interest going to be distributed to all the provinces proportionately to the population, or is the interest accumulated by one fund administered by one province so that there would not be an over-all fund distributed across Canada?

Mr. FARIBAULT: Actually we have to come to an understanding on the wording. When I told Mr. Richard I felt that if the sum had been handed to the provinces there would be no difficulty in the province I meant that if it were distributed to the provinces instead of to the Canada Council, then there would be no difficulty. If it had been given to the council for distribution to

the provinces I thought there would still be some difficulty. That is what Mr. Moore and Colonel Weldon said. When you ask: how is it going to be distributed? We come to the crux of the problem. The act mentions just one fund. If there is just one fund you cannot separate the parts or the investments between the provinces and say that because a province is entitled to \$17 million you can invest the moneys and the proceeds could go to that province, but you must continue to administer your whole trust fund and distribute the proceeds including the profits.

The act says that the profits will follow the original principal as well as include the interest because the interest must follow the principal in some way. The big question in my mind is this, how does the interest follow the principal? Is there a falling off of interest and therefore a constructive interest or an interest to be charged on advance because a university in one province receives all its share of the \$50 million? I should like to use a simile. Let us say you have one cake and you take a portion of it and give it away and you are left with the rest. There is no problem. However, if you assume that this cake is a magic cake which sprouts out icing, the big question is whether the remainder of the cake will sprout icing which will be distributed apart from the piece which you have given away? Our view is that the part you have given away has the same magic nature and that it sprouts icing which you must consider.

Mr. VALADE: It means that if you have eaten a piece of cake you would be entitled to another one, while someone who did not have the first portion would also get a second share.

Mr. SCOTT: I would like to ask you, if the committee came to a decision that your trust fund approach is the one to take, do you feel any amendment to the act is required to clarify the position of the council? What we need is a French amendment to the English edition, or the reverse. Do you feel that some amendment to the act would be helpful or necessary to clarify the position you intend to take?

Mr. FARIBAULT: This is one of the questions we put to the proper authority. They thought it was not advisable to amend the act. Of course, those who took the view taken by the council do not need any amendment, because the council was unanimous on that. Those who took the other view probably would never be satisfied unless there was an amendment.

Mr. FORBES: If I understood Mr. Faribault correctly, he made reference to a census of the population of the province, and he also referred to the number of students. What formula did he use, or was it a combination of both?

Mr. FARIBAULT: As between provinces we make no reference to the number of students. But within one province, as between the universities, for its own guidance, the council does take into consideration the registration at the several universities as one factor which it considers before giving so much money to one university, and so much money to another. For instance, in the province of Alberta, there is one big university, the University of Alberta, with a few small colleges which also are affiliated. I think most of them are affiliated with the University of Alberta. Nevertheless the question is, let us say, if the amount properly attributable to Alberta is \$5,000,000, how are we going to distribute it between institutions in that province? Our council said that we would take into account the importance of the institution, and the number registered, that is, the number of students. But this is strictly an internal matter within one province, and it does not change the general reference as between provinces, where the criterion is strictly the population and not the number of students at all.

Mr. MUIR (*Lisgar*): I was intrigued, as I think were most of the members, by the legal aspects, and the very comprehensive statement which Mr. Faribault



has made to us. However, not being a lawyer, I look at things in a simpler fashion.

The CHAIRMAN: I am glad you did not say sensible.

Mr. MUIR (*Lisgar*): I wonder, if at the time the act was passed it was the intention to use the 1956 census, why it was not designated in the act.

Mr. FARIBAULT: That is one of the arguments raised by one of the legal advisers. They said why? Why not use the words: 1956 census? I think I can throw some additional light on that. In my view the mistake made by the legal advisers who run counter to the council's sentiments is this: they consider this act as being an act of parliament which regulates the distribution of public funds. In my view this is not a proper construction at all. Parliament said: we transfer to the Canada Council a sum of money, and this is an outright transfer. Henceforth the Canada Council is no longer an agency of parliament. It is a private corporation which is of a certain public character, but you cannot construe the act otherwise than that. If you do construe the act in the way I am just putting, it becomes clear that it is an act which takes effect as at one moment, and that the census must be the last census before the act, because this is the final determination of the constitutional authority governing the act and also of the transfer of money. Parliament does not intervene afterward except to ensure that a quasi public corporation, which is not an agency but is still distributing money which was originally parliament's, is open in its accounting so that the whole public knows what it is doing. This is my view. I think it is sufficiently justified in law to explain why you should not construe it with anything else but 1956, because this was fully established by saying "the latest" or "le dernier" in French. It could not mean anything else.

Mr. PIGEON (*Interpretation*): If, in the beginning, a university of the province of Quebec refused to accept this money, would the interest be lost in the future?

Mr. FARIBAULT: If the formula decided upon by the Canada Council is to be followed then the province of Quebec will lose nothing at all. But, on the contrary, if the view of the Auditor General is accepted then the province of Quebec would stand to lose some considerable sums which as of today could be figured in the neighbourhood of \$1 million.

I could cite one example, and it is not one of the most important, you know. When a province receives money from the Canada Council through some of the universities in that province the interest is charged to them and, therefore, in the aggregate to the province, and this interest is added to the interest actually earned by the remainder of the fund which is in the hands of the Canada Council. Then, when the whole balance is distributed as a final distribution you figure the amount to which that province is entitled and you deduct therefrom the amount which has been charged to it. If there is a balance available that province will get it. If there is no balance available it will be because the remainder of the fund has not produced sufficient interest or profits to justify an additional payment. But, of course, that province is not bound to pay back anything nor the institutions therein, although they have been charged some interest for computation purposes.

This is illustrated by the case of Newfoundland, which has received \$1,293,000. At five per cent per annum this would represent about \$65,000 per year; for five years that would be \$325,000. Now, if the amount to which Newfoundland was entitled at the end exceeded \$325,000 on account of the interest and profit it would receive the difference; otherwise, it would have nothing to receive because it already has received what it was entitled to.

Mr. PIGEON (*Interpretation*): In other words, Mr. Chairman, if a province does not work within the formula, it indirectly loses the interest.

Mr. FARIBAULT (*Interpretation*): It will not lose; if we follow the formula adopted by the Council. The province has no right to it; it is the institutions of that province. The people of that province will not lose anything, if we follow the idea put out by the Council.

(Text:)

Mr. RICHARD: When this act was passed by parliament, this was set up to cope with the problem according to the population which existed at that time, and it should not be varied in the future because of changes in population. That is a static fund.

Mr. FARIBAULT: Yes.

Mr. RICHARD: It was to deal with the problem in respect of the population which existed at that time and was not to be varied in the future.

Mr. FARIBAULT: There are two constructions possible.

Mr. RICHARD: That fund was created only for that situation?

Mr. FARIBAULT: Yes. There are plenty of provisions in the act to show that it was a one shot fund.

Mr. RICHARD: That is what I am trying to get at.

Mr. FARIBAULT: The act says that council must use a fund called the university capital grants fund to which would be credited \$50 million transferred over by the Minister of Finance. If you look at the other provisions of the act, there is no possibility for this to be increased unless there is an additional act giving additional funds to that special fund. The council may receive gifts from outside, but the outside gifts will be governed by the donor, and will not be part of the university capital grants fund.

Mr. RICHARD: That is what I am trying to get at.

Mr. FARIBAULT: I might add that at the time everybody was fully convinced this would be spent much faster than it actually has been. The universities had been asking the Massey commission for funds, and immediately the fund was established council had a meeting with the universities. Everybody was agreed that some universities were in dire need of funds, and everybody felt it would be distributed much before the actual distribution. As you know the province of Quebec was in a peculiar situation, because its own government told its universities not to ask for this money. The premier said: "I forbid you". Therefore, this raised quite a complicated constitutional issue outside of the council, but also a quite complicated issue within council in order to know what actually to do.

Mr. RICHARD: This was a one shot operation.

Mr. FARIBAULT: That is right.

Mr. RICHARD: And on that basis, in my view, of course you would be justified in going ahead with distribution of the fund in that equitable way according to law which you are doing. I can see that is not your problem. If more moneys were to be allocated by government, then it would be time to consider the other question.

Mr. FARIBAULT: This was mentioned in at least three memoranda considered by council; that is, that if this was to be a permanent fund to be replenished, then there was a great deal to be said for the other construction. The distribution would be made, and there would be adjustment from one year to another. This was always very clear in our minds.

Mr. WAHN: Mr. Chairman, I have two questions to ask the witness.

Is this a matter which can be referred to the Supreme Court of Canada for an authoritative decision? Secondly, if this formula which is suggested is proved to be wrong, are the members of the Canada Council under any legal liability?

Mr. FARIBAULT: In the first place, I do not think this can be referred to the supreme court by the Canada Council. I think the supreme court gives an opinion only when a case is submitted by the government. Therefore, this avenue which you suggest is not open as far as we are concerned.

Mr. WAHN: Has this possibility been considered?

Mr. FARIBAULT: This possibility was debated, yes, but there is nothing in writing.

In the same way, although this is a trust fund, we do not think we can ask the superior or supreme court to make a decision. There is no forum from which we can ask for direction.

Regarding your second question whether there is personal liability, we have been advised by counsel that there is none.

Mr. REGAN: That is very reassuring.

Mr. Faribault, before addressing any questions, I should like to say that I disagree 100 per cent with the formula contained in the legislation for the division of money between the various provinces on a population basis, because I think this grossly discriminates against a province such as Nova Scotia, which has had academic institutions of such standing that it has drawn its students from many parts of Canada. However, I realize that this is not the situation we are discussing here today.

I should like to ask at this time whether there is disagreement between yourself and the Auditor General regarding the correct interpretation or formula at this time?

Mr. FARIBAULT: I suppose one could go that far, yes.

Mr. REGAN: Perhaps I am making a penetrating glance at an obvious situation. If such a fundamental discrimination exists, and in light of your last statement outlining your position with extreme clarity, although the Auditor General has made some statement in this regard, I think it would be very useful to have him present a rebuttal.

The CHAIRMAN: Before we proceed in that direction perhaps we can allow the two members on my list to complete their questioning.

Mr. SCOTT: Mr. Faribault, I should like to ask a question for clarification. Can you tell me whether the council anticipates distributing the interest earned on profit on the same basis used to distribute the original \$50 million?

Mr. FARIBAULT: I think you have touched here upon the whole question. At the present time we have distributed or allocated some \$48 million, which indicates how close we are to the interest and profits. Actually we have gone further than that. I have given you the example in respect of Newfoundland, because that province has only one eligible institution, so the situation is very clear.

You will realize that there are many provinces which have already received more than the principal to which they were entitled. These provinces have already received what we have called advances of the interest and profits. These advances have not been sufficient to prejudice the final distribution in the event that parliament does indicate, after receiving the report from this committee, that it wants the act amended in one way or another. Therefore, this whole question remains open. However, it cannot remain open for long. I do not know whether we have any requests at the present time from universities, but if we were to accede to those requests at the Canada Council session today this would actually mean that we were actually committing ourselves to one or other of the formulae.

Mr. SCOTT: I should like to ask a supplementary question. Are you suggesting that we are going around in circles, Mr. Faribault? I understood you to indicate that the council had unanimously accepted this approach?



Mr. FARIBAULT: That is correct.

Mr. SCOTT: On the assumption that you are unanimous in this approach, you will distribute this money on that basis?

Mr. FARIBAULT: Yes.

Mr. SCOTT: Does that then mean you will make a distribution on the same basis you distribute the original grant?

Mr. FARIBAULT: Yes. Here again I do not wish to presume to speak for the council. I would suggest that it would be rather presumptuous, if this committee strongly recommended to parliament that some modification of the act be made. We hope this will not be your recommendation.

I think the situation may be summed up as follows. Notwithstanding the opinions given by some of our legal advisers and the opinion received by the Auditor General, as he has just outlined it, I think the council has sufficiently explored the whole matter to be in a position to say that it will distribute according to the formula I have outlined to you.

Mr. SCOTT: Unless we do something here.

Mr. FARIBAULT: There is no question about that.

Mr. SOUTHAM: Mr. Chairman, I am not a legal expert but I am very interested in this whole problem and I greatly appreciate the very good outline Mr. Faribault gave us. I think the whole question revolves around the idea that was behind the fund at the outset, and is dependent upon whether this was intended to be a one shot deal or something that would be continued in perpetuity.

If this is a matter for perpetuity, it would take us back to the suggestion Mr. Faribault outlined in his earlier remarks. The provinces which came in early would have the advantage that they distributed this money into their educational stream. The outcome would be that their students would be getting an earlier start and they themselves would be getting compensation, aside from the issue we are discussing here of the benefits of this interest.

I think the solution to this problem depends upon whether we, as a parliamentary committee, will recommend that this fund be continued in perpetuity or whether we recommend it be a one shot deal.

Mr. GRAY: I would like to ask a question which has already been hinted at. Is there any account taken of the fact that some universities in some provinces have a larger proportion of students than others?

Mr. FARIBAULT: Not at the present time.

Mr. GRAY: Do you think that would be useful?

Mr. FARIBAULT: We are prevented from doing that.

Mr. REGAN: The legislation prevents that.

Mr. FARIBAULT: We cannot give more than the amount computed by way of the population ratio.

Mr. GRAY: Do you think that would be a useful adjustment?

Mr. FARIBAULT: I do not want to answer that question. If I answered that I would be bound to answer Mr. Pigeon's question.

Mr. GRAY: I withdraw my question.

Mr. FORBES: You distributed \$40 million?

Mr. GRAY: I wonder if I could be permitted the courtesy of continuing my line of questioning?

The CHAIRMAN: Yes.

Mr. GRAY: I gather we are supposed to be discussing the last report of the Auditor General and the follow-up report. Am I correct, Mr. Chairman?

The CHAIRMAN: Yes. What we are discussing now is the follow-up by the Auditor General to the report of this committee in 1961.

Mr. GRAY: Mr. Chairman, if the decision of the Canada Council which has been reported to us has not been considered officially by the Auditor General in one of his reports—in fact, his comment is unofficial and news to Mr. Faribault—are we within our proper jurisdiction in considering it at this time?

Mr. HENDERSON: May I answer this, Mr. Chairman?

We are considering now the follow-up report. The whole purpose of the follow-up report is to give comment updating the subject matter or regarding events since the recommendation was made, for the information of the members.

As you know, the basis on which the follow-up report was supposed to proceed has been outlined. However, as I mentioned this morning, I have not qualified my report on the accounts of the Canada Council because no money was distributed, pursuant to this decision, as the time when I last examined the accounts, namely March 31, 1963.

However, in the light of the fact that this decision has been hanging fire, I informed the council of my view on the matter and I informed the director of the council, and this is where I do not quite understand why Mr. Faribault did not know of this. I informed Dr. Trueman, that I had been furnished with this opinion from the deputy attorney general after he had studied this whole matter. I am not a lawyer and in matters of this kind where I have reason to believe the law is not being adhered to it is my practice to refer such matters to the deputy attorney general.

Mr. FARIBAULT: I would say that although I myself did not know it, it is quite possible that the director of the council knew it. This is a private consultation which the Auditor General had. In other words, we had not been given any opinion.

Mr. MOORE: May I make one observation? It is suggested that the original institution which had received its funds back in 1957 and 1958 and benefited from the building costs at that time should share in the capital income of the balance of the fund. I asked the question: what would happen if the balance of the fund had diminished?

The CHAIRMAN: That is something that will have to be considered. Have you completed your questioning, Mr. Gray?

Mr. GRAY: The point I was getting at is that there is no doubt that what we are discussing here is very important generally, but I am a bit concerned that we do not have before us an official presentation as we usually get in one of Mr. Henderson's reports. I am wondering whether our discussion is timely.

The CHAIRMAN: If you read the first paragraph on page 20 it says that the committee recommended that the council seek to conclude this matter without delay. Apparently the council did come to a conclusion on it and have now given us the results of their deliberations. I assume we are anticipating events to some extent, and the Auditor General is giving us the benefit of what his views would be on the basis of the decision which the council may come to. At a later date he may have to consider whether they were right or wrong. While we may be anticipating events, this is a useful discussion at this time.

The committee did agree to sit from eleven o'clock to one o'clock. I understand the members of the council have a rigid schedule. Will the committee agree to continue to sit for a few minutes and to try to pursue this matter to a conclusion so far as we can today?

Mr. PIGEON (*Interpretation*): I have a question to put to Mr. Faribault. The Canadian university foundation had been told to limit the sum to approxi-

mately \$109,000. What was the subsequent reaction of the foundation in the face of this ultimatum?

Mr. FARIBAULT (*Interpretation*): This is not at all the same question because at the present time we are speaking only of the university grants fund. If you put this question, you are going outside the authority of the Canada Council.

(*Text*.)

Mr. RICHARD: I want to ask Mr. Henderson the following question: on what basis would you have interest and profits distributed if your views on the formula of distributing the \$50 million are accepted by parliament?

Mr. HENDERSON: My answer to that would be to say that I have full sympathy with the officers over this problem as well as a full understand of the hotchpot or trust fund approach which has been advocated and is to be adopted by the council.

My concern however at this time is its legality in light of the fact that it contemplates adoption of what otherwise appears to be a common sense approach to a difficult problem.

Mr. RICHARD: I take it you have no conception of a distribution other than the one being followed?

Mr. HENDERSON: At this time, no sir.

Mr. SCOTT: Supplementary to that, is it your suggestion then that the method adopted is a sensible one, but there may be some question of the technical legality of it?

Mr. HENDERSON: Precisely.

Mr. SCOTT: What you want is an amendment to clear that up.

Mr. HENDERSON: I think it is reasonable to express the hope that an amendment might be obtained under the circumstances. Times and conditions change. It is now six years after the enactment of the basic legislation, and I think it is a fair question to ask: what about changing it.

Mr. RICHARD: If that is the point of view you take, suppose conditions do not change. Then there will be a certain problem at a certain time.

Mr. REGAN: Following up the same point, do you feel it would be better to have such an amendment than to have the moneys allocated according to another formula? You are not suggesting that we adopt and have legislative endorsement of a different formula other than that which has been adopted or which is favoured by the legal advisers of the council?

Mr. HENDERSON: Before you proceed, it seems to me that to reach any conclusion to make any recommendation that the Canada Council Act should be amended to provide for a formula such as this, you might like to see some figures indicating the working out of this particular formula which is more or less standard trust company approach. I think Mr. Faribault would describe it as such. Whatever I think of the desirability of the committee making such recommendations for a possible change in the act—which would be a perfectly proper function of the committee—I think your question should be directed to Mr. Faribault because he, and his associates, have been wrestling with this problem for some time now, and they might welcome it, or, on the other hand, feel that it is not necessary.

Mr. REGAN: I have a supplementary question to this effect, there has been a legal opinion that members of the council would not be liable if they should be incorrect, or if their lawyer should be incorrect in the opinion that they have obtained, if they are to dispose of funds according to that opinion. Do you feel that the government would be liable, or anyone else liable?

Mr. HENDERSON: I am not a lawyer and I cannot answer that question.



Mr. REGAN: You have not obtained any opinion in that regard?

Mr. HENDERSON: No, sir.

Mr. MUIR (*Lisgar*): Do you feel that this committee should recommend that there be a change in the act to legalize the procedure which obtains? Do you feel it necessary?

Mr. FARIBAULT: This is not the stand taken by council. The council feels it has taken a legal stand and is properly construing the act.

Mr. REGAN: What do you see as a disadvantage of the council's position? They apparently are not legally liable if they are in error. Do you agree with that?

Mr. HENDERSON: I understand that to be the case.

Mr. REGAN: You say you understand that to be the case. They are an autonomous body according to the legislation.

Mr. HENDERSON: That is right.

Mr. REGAN: And even if they proceeded in good faith and according to their interpretation to obtain an opinion, then what aspect of this action concerns you?

Mr. HENDERSON: That I should be obliged to state that the law has been broken, that the method of distribution does not conform to the Canada Council Act. That is the position in which I am placed.

Mr. REGAN: Would your feeling be sufficiently strong on this subject? Would there be contemplation of the department enjoining the council from spending money according to this formula?

Mr. HENDERSON: Any action along this line would be a matter for the government to consider. I can only point out that one of my responsibilities is to see whether disbursements of funds are made in accordance with the law of the land. If I find something to the contrary, I am required to disclose it.

Mr. SCOTT: On a point of order, Mr. Chairman, I am sure no one here would want the reputation established that the council could be impugned by a statement made by such a reputable person as Mr. Henderson. If they have acted illegally I am sure we are all agreed that they felt this was a sensible approach that was taken.

Mr. Chairman, will we be giving more attention to this subject matter at a later date?

The CHAIRMAN: There will have to be some consideration given to it before we write our report and, if there are other aspects of it in which the committee would need further enlightenment, I am sure Dr. Trueman would appear before us to add his opinion on behalf of the council at that time.

Mr. WELDON: This is a very important matter to us, Mr. Chairman, and if we get sufficient notice we will see that there is proper representation made to your committee.

Mr. MUIR (*Lisgar*): Mr. Chairman, I directed my supplementary question to the wrong person; I am going to pose it now to Mr. Henderson.

Mr. Henderson, do you feel there should be a change in the act to legalize the procedure used by the Canada Council?

Mr. HENDERSON: I will be pleased to discuss this with Mr. Dreidger, the deputy attorney general, to ascertain what his further views on that point might be. But, I think I am perfectly correct in saying at the moment that we both feel that is indicated.

The CHAIRMAN: Before we leave this might the Chairman be allowed to put this question to Mr. Faribault. Has council given any thought to the type of amendment apropos the sections we see in the workmen's compensation

legislation, that in connection with profits and interest the council shall be the sole judge of the distribution to be made in accordance with the provisions of the act.

Mr. FARIBAULT: I would say that if that were to be done it would be very useful for council, especially if additional grants were to be made to council. But, you see, at the moment, you take the view, as we had to take it, that it was a one shot thing. The question is: is it sufficiently important, because these moneys will be distributed within two years, to have an amendment to the act, and to set down that principle which might have to be changed if some further legislation is presented with respect to this Canada Council.

The CHAIRMAN: That is why I offered that suggestion.

Mr. FARIBAULT: I do not know. Our own view at one time was that changing the words "last census" to census of 1956, would have been sufficient. It does boil down to a simple thing. If it is 1956, we feel there will be no difficulty, save possibly on the interest. However, there would be practically none because the main difficulty is in the change of census, which raises an enormous number of questions. I am not sure that the Auditor General would want to say that by using the trust fund or hotchpot formula under a single census it would raise the same objection, in his mind.

Mr. VALADE: I would like to pick up the word "illegal" which has been brought up here. In view of the purpose of the council I am wondering if the terminology of the act should not be interpreted in respect of the aim pursued by the council rather than by the legal terms which Mr. Henderson is attempting to seek out and interpret. I think this committee would be very wise in not interpreting the word "illegal" as it is interpreted by an accountant. As I say, I think further consideration should be given to this word "illegal" in view of the interpretation and the purport of the act in this matter. Perhaps Mr. Faribault would like to comment on this because I think this goes to the root of the whole problem.

Mr. FARIBAULT: I hope you are not asking me to rule out the report of the Auditor General. This is not in my province.

Mr. WELDON: Mr. Chairman, I think the committee should know that we discussed this matter with two prime ministers and in both cases the question of amendment to the act was ruled out.

The CHAIRMAN: I think we appreciate this discussion. There is another aspect with which we will deal later; that is the question of the need for additional resources. When he appears before us later, Dr. Trueman might deal with this particular aspect.

Mr. WELDON: If that is the case, then I think we will take it up at the next meeting of Council.

The CHAIRMAN: I think it is of sufficient importance to warrant your coming back.

Mr. HENDERSON: I presume the Canada Council for the year ending March 31, 1962, was also referred to this committee for study along with my own report, so it will be quite appropriate to deal with this at another meeting.

Mr. WELDON: We will do that, sir, if we get sufficient notice.

The CHAIRMAN: The meeting is adjourned. Thank you very much, gentlemen, for your attendance.





HOUSE OF COMMONS

First Session—Twenty-fifth Parliament  
1963

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STANDING COMMITTEE  
ON  
**PUBLIC ACCOUNTS**

*Chairman:* G. W. BALDWIN

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MINUTES OF PROCEEDINGS AND EVIDENCE  
No. 4

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Public Accounts, Volumes I, II and III (1962)

Report of the Auditor General to the House of Commons—1962

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FRIDAY, NOVEMBER 22, 1963

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WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; Mr. R. G. MacNeill, Chairman of the Civil Service Commission; Mr. J. C. Allen, Director, Estimates and Administrative Procedures Division, Treasury Board Staff; and Mr. H. O. Moran, Director General, External Aid.

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1963

## STANDING COMMITTEE ON PUBLIC ACCOUNTS

*Chairman:* Mr. G. W. Baldwin

*Vice-Chairman:* Mr. W. H. McMillan

and Messrs.

Basford,	Harkness,	Rock,
Beaulé,	Lessard ( <i>Saint-Henri</i> ),	Rondeau,
Berger,	Loiselle,	Ryan,
Cameron ( <i>High Park</i> ),	McLean,	Scott,
Cameron ( <i>Nanaimo-</i>	McNulty,	Slogan,
<i>Cowichan-The Islands</i> ),	Muir ( <i>Lisgar</i> ),	Smith,
Crouse,	Noble,	Southam,
Drouin,	Nowlan,	Stefanson,
Dubé,	O'Keefe,	Starr,
Eudes,	Olson,	Tardif,
Fane,	Pigeon,	Tucker,
Fisher,	Pilon,	Valade,
Forbes,	Regan,	Wahn,
Frenette,	Ricard,	Whelan,
Gendron,	Richard,	Woolliams—50.
Gray,	Rinfret,	
Hales,	Rochon,	

M. Slack,  
*Clerk of the Committee.*

ORDER OF REFERENCE

HOUSE OF COMMONS  
FRIDAY, November 22, 1963.

*Ordered*,—That the Standing Committee on Public Accounts be granted leave to sit while the House is sitting.

*Attest*.

Léon-J. Raymond  
*The Clerk of the House.*



## REPORT TO THE HOUSE

FRIDAY, November 22, 1963.

The Standing Committee on Public Accounts has the honour to present the following as its

### SECOND REPORT

Your Committee recommends that it be granted leave to sit while the House is sitting.

Respectfully submitted.

G. W. BALDWIN  
*Chairman.*

*(Note: This Report was concurred in by the House on the same day.)*

## MINUTES OF PROCEEDINGS

FRIDAY, November 22, 1963

(5)

The Standing Committee on Public Accounts met this day at 9.10 o'clock a.m. The Chairman, Mr. G. W. Baldwin, presided.

*Members present:* Messrs. Baldwin, Crouse, Dube, Fane, Forbes, Gendron, Gray, Hales, Lessard (*Saint-Henri*), Loiselle, McLean (*Charlotte*), McMillan, Noble, O'Keefe, Olson, Pigeon, Regan, Ricard, Richard, Rondeau, Ryan, Southam, Stefanson, Starr, Tucker, Valade, Wahn, Whelan—(28).

*In attendance:* Mr. R. G. MacNeill, Chairman, of the Civil Service Commission; Mr. A. M. Henderson, Auditor General of Canada; Mr. Ian Stevenson, Assistant Auditor General; and Messrs. Long, Millar, Douglas, Smith, Cook, Laroche and Stokes from the Auditor General's office; Mr. J. C. Allen, Treasury Board Staff; and Mr. H. O. Moran, Director General of External Aid.

An oral Report of the Subcommittee on Agenda and Procedure was presented by the Chairman recommending that the Committee request permission to sit while the House is sitting.

Mr. McMillan moved, seconded by Mr. Southam, that the Report of the Subcommittee on Agenda and Procedure be adopted. *Motion carried.*

Pursuant to a Resolution of the Committee of November 15 in connection with staff recruitment for the Auditor General, the Chairman announced that the Civil Service Commission and the Auditor General have reached an agreement on this matter.

Mr. MacNeill and Mr. Henderson commented on the satisfactory solution agreed upon.

The Chairman thanked the witnesses for reaching a solution and then Mr. MacNeill was retired.

The Committee then proceeded to further consider the Auditor General's Follow-Up Report on action taken by departments and other agencies in response to recommendations made by the Committee in 1961, and Mr. Henderson was questioned thereon.

The Committee agreed that witnesses be heard with respect to item, "Board of Grain Commissioners".

Mr. Allen was introduced and commented upon the item, "Subsidies" and was questioned thereon and then retired.

The Committee completed consideration of the Auditor General's Follow-Up Report with the exception of several items which stood in order that witnesses be heard.

The Committee then proceeded to the consideration of the Report of the Auditor General for the fiscal year ended March 31, 1962, paragraphs 2 to 14 inclusive.

Mr. Henderson was questioned, assisted by Mr. Long.

The Chairman then called paragraph 61 and Mr. Moran, Director General, External Aid, made a brief statement on certification for counterpart funds and was questioned thereon.

The Committee agreed that a letter from the Chairman of the Civil Service Commission to the Chairman of this Committee, dated April 3, 1963, dealing with staff recruitment for the Auditor General be printed as an Appendix to this day's Proceedings. (*See Appendix "A"*).

At 10.55 o'clock a.m., the Committee adjourned until 11.00 o'clock a.m., on Monday, November 25, 1963.

M. Slack,  
*Clerk of the Committee.*



## EVIDENCE

FRIDAY, November 22, 1963.

The CHAIRMAN: Gentlemen, I see we have a quorum. Let us come to order. Before we proceed with the ordinary business of the committee I should report to you that the steering committee met yesterday and discussed the problem which is common to all committees, namely, that of logistics, time, space and rooms; and we decided to ask for your approval of a recommendation to ask the house for permission to sit while the house is in session. We do not intend to use it indiscriminately. As a matter of fact we hope to get along without it.

I looked at the number of days we have ahead of us. We have eight days of the pattern now established, and at the rate we are going there is every reason to believe that we could complete our deliberations and examination of witnesses, and make a report. The question of when the house is going to prorogue, I cannot answer. Maybe some other members know more about it than I do. But it seems reasonable that we should be able to complete our deliberations.

Sometimes, we have almost completed an examination of a witness or the consideration of a subject when we have been frustrated and have had to abandon it. This is something which is quite difficult to present to a witness. So with the expectation that we will only use this power in order to tidy up, we would ask you to be good enough to approve the unanimous recommendation of the steering committee that we ask the house for power to sit while the house is in session.

Mr. McMILLAN: I so move.

Mr. SOUTHAM: I second the motion.

The CHAIRMAN: It has been moved and seconded.

Motion agreed to.

You will recall that a week ago pursuant to a motion made by Mr. Richard, we passed this resolution as follows.

That consideration of the question of recruiting staff for the Auditor General's office be deferred at the present time to allow Mr. MacNeill and Mr. Henderson to reach an agreement and report back to the committee by next Friday, November 22 on the result of their discussions.

I have been advised by Mr. MacNeill, the chairman of the civil service commission, and by Mr. Henderson, the Auditor General, that they have met during the past week to discuss this matter and that they have now reached agreement regarding the following solution designed to enable the Auditor General henceforth to recruit and manage the staff he requires in the performance and discharge of his duties.

1. The Auditor General and the civil service commission have reached agreement on the steps to be taken to achieve the objectives of the Auditor General in the area of recruitment, selection and negotiation with candidates for positions in his office. While giving the Auditor General freedom to recruit staff, these steps contemplate adherence to the basic personnel policies and standards sought for the Canadian public service by the civil service commission, and the

Auditor General has accepted the responsibility to see that this is maintained through the medium of effective liaison.

2. In order to facilitate the achievement of these objectives, the civil service commission is seconding a senior employee from its staff to the staff of the Auditor General to handle his staff and administrative matters.

Both Mr. MacNeill and Mr. Henderson have told me that they believe this new arrangement will function smoothly and effectively toward removing the recruitment difficulties with which the Auditor General has been faced over the past several years.

In addition to reading this written report I am going to ask Mr. Henderson and Mr. MacNeill, who have been good enough to come back here, to make some comments to the committee on what I think appears to be a most admirable solution of their difficult problem. Now, would you care to address the committee, Mr. MacNeill?

Mr. R. G. MACNEILL (*Chairman of the Civil Service Commission*): Thank you, Mr. Chairman. I would like to say that my colleagues, Miss Addison and Mr. Boucher, as well as myself, are very pleased that the problem has been solved satisfactorily to all concerned. I would like to express our appreciation to the Auditor General for his friendly co-operation and understanding during our discussions. I am sure that the arrangement we worked out will meet his staffing problems, and we will be glad to work with him to ensure that they do.

The CHAIRMAN: Thank you. Now, Mr. Henderson?

Mr. M. HENDERSON (*Auditor General of Canada*): Mr. Chairman and members of the committee, I am pleased to echo what Mr. MacNeill has said. The arrangement that we have entered into should, in my opinion, provide me with the tools that I need to recruit and manage my staff along the lines that I have felt I have needed for some years. I have no wish to separate, or to see my operations separated in any way from the standards and general policy levels across Canada of the public service. I feel that this is a good arrangement and that we should be able to move ahead now and obtain both the quality and the number of people that I am seeking. I think that is about all I have to say at this time.

The CHAIRMAN: Thank you, Mr. Henderson. I am sure the committee would want me to express to both of you their appreciation of what has now been arrived at after some years as a solution to a problem which probably at one time seemed unsolvable, but which has now been resolved as a result of a solution, with co-operation and understanding. Thank you.

Mr. MACMILLAN: Mr. Henderson said that the previous arrangement did not allow him to give his employees certain rates, having regard to the rules of professional societies of auditors. Would this new arrangement make any difference in that respect?

Mr. HENDERSON: I believe that under the new arrangement I shall have the right to recruit and manage my staff, and that it will enable me to make application along the proper lines to the provincial institutes of chartered accounts. But I cannot say what their final decisions will be.

Mr. HALES: I would like to say that I have followed this problem for several years and I am happy to see that it has come to a satisfactory conclusion. No doubt the Auditor General will report to the public accounts committee at the close of the first year's operation to advise us of the way in which it has worked.

Mr. HENDERSON: I shall be pleased to do that, Mr. Hales.

The CHAIRMAN: I do not think we need to have any formal resolution on this. It is a matter that we will deal with in our report when it is made. Let us now pass on to the next item of business. Thank you very much for attending,

Mr. MacNeill. We appreciate it very much.

There are one or two items yet to be completed in the follow-up report of the Auditor General. If you will turn to page 19 you will see an item in regard to the board of grain commissioners which reads:

In paragraph 88 of its report, the committee stated that it felt concerned that in each year since 1953-54 the expenditures of this activity had exceeded its revenues by more than \$1 million, and the committee recommended 'that steps be taken to bring revenues and expenditures into balance'.

I would ask Mr. Henderson for his comments on this item.

Mr. HENDERSON: On page 19 of my follow-up report I dealt with the comments made by the deputy minister of agriculture regarding the committee's recommendation in 1961, that steps be taken to bring expenditures and revenues into balance because, as the committee had observed, every year since 1953-54, the expenditures of this activity have exceeded its revenues by more than a million dollars. As you will note from the comments at the foot of page 19, Mr. Barry says that they are exploring with the board the extent to which steps can be taken to reduce the present disparity; and beyond that point I do not have any information. It may be that you would feel you should take the opportunity of the presence of the deputy minister of agriculture sometime to pursue this matter with him further.

The CHAIRMAN: There are matters which will be coming up in your annual report for the fiscal year which might require the presence of the deputy minister.

Mr. HENDERSON: That is right, Mr. Chairman. In this case, we could revert to this particular item and ask for his latest views. Of course, a reduction in the present disparity or steps taken to bring the revenues and expenditures into balance can very well mean increasing the fees which, as you see, have not been increased for a great many years. As to the propriety of that, you may have some questions.

Mr. SOUTHAM: Mr. Chairman, I had the privilege of sitting on the agricultural committee yesterday when it was discussing this very point. The board of grain commissioners were present, and this was discussed. It was felt, I think by the majority of the committee, that the matter should be left as it is at the moment due to the fact that any increase in fees would be directly applicable to the farmers themselves in their final payments so far as disbursements through the Canadian wheat board. Whether that is final and all-conclusive I am not prepared to say, but this was the feeling of the committee yesterday.

Mr. OLSON: That was an expression of opinion.

I am wondering, Mr. Henderson, whether you would like to comment on your opinion of the act and tell us whether you feel the act intended the board of grain commissioners to charge fees that would balance with their expenditures.

Mr. HENDERSON: Without wishing to trespass into the area of policy, Mr. Olson, it has seemed to me that was the intention of parliament at the time the legislation was enacted. It has seemed to me that it was intended to be a balancing proposition, and I have approached it from that point of view; but I could be wrong.

Mr. OLSON: There are no specific provisions in the act?

Mr. HENDERSON: I think not. I would like to double check that for you, but I think not.



Mr. HALES: Mr. Chairman, if there was ever a time when they could balance their books it would have been in the last two years owing to the great amount of sales of grain in western Canada. Did this picture correct itself last year?

Mr. HENDERSON: I do not think I have any figures at the moment which would answer that, Mr. Hales. You will see that there were years prior to 1953-54 when in fact they did have an excess of revenue over expenditure, and it may very well be that they will be able to return to that condition for the reason that you have given.

Mr. HALES: I would think the board was set up with the intention that it should balance itself each year and, in view of that, I would think these fees should be sufficient to cover expenditures.

Mr. FORBES: Mr. Chairman, Mr. Henderson touched on the very secret of their problem in the last paragraph. You will notice that in 1952 and in 1953 when we had a large crop, the board of grain commissioners were self-supporting, and you will notice that in the years of low bushel crops they had a deficit. Their fees are charged on a per bushel basis, and this accounts for the position in which they find themselves from time to time when there is a small turnover or a small crop. In the forthcoming year they will probably again have an excess over expenditure. You can follow the crop years and forecast fairly accurately what is going to happen.

Mr. HENDERSON: Volume must, of course, have a tremendous bearing in a case of this kind.

Mr. FORBES: My point was that one can hardly expect the board to raise their fees in a year when there is a short crop.

Mr. SOUTHAM: This bears out the consensus of opinion of the committee yesterday, which I was expressing a moment ago. This is probably what the members had in mind at the committee on agriculture yesterday. We went on from that problem to others, and the impression I had was that it was felt we should leave it in its present position.

Mr. OLSON: I do not think we should make a decision at the moment. It is apparent from the evidence that was given in the agricultural committee yesterday that there is need to expand the operations of the board, particularly in the eastern elevators where they do not have sufficient staff even at the present time to adequately check and police the operations they are charged with policing. I think it would be well for us to hear from the department of agriculture.

Perhaps this matter should be discussed in the committee on agriculture. We could then discuss that committee's opinion in regard to expanding the operations of the board of grain commissioners. At that same time we could also discuss the advisability of an increase in fees to take care of this position and the deficit, rather than their being a charge on the public treasury.

The CHAIRMAN: Does the committee agree that this item might well be left open? Obviously, the deputy minister or someone from his department should attend in regard to other matters which appear later. Are you agreed that we can revert to this item and question the deputy minister, Mr. Barry, upon it when he appears before us? Is this satisfactory?

Agreed.

The next item pertains to subsidies.

In paragraph 89 of its fifth report 1961, the committee recommended: that a study be made next year of the various classes of subsidies or payments in the nature of subsidies, that are provided, directly or indirectly, out of public funds.

The committee requested (paragraph 90) that the minister of finance prepare a statement 'summarizing the various subsidies paid from funds during the year, and showing the comparable amounts for the two preceding fiscal years.'

I think you will all have received through the mail fairly voluminous itemized lists of all the grants, subsidies and special payments which have been compiled by the treasury board or the department of finance. Apparently this particular item arose as a result of discussions held in 1961, when a suggestion was made that such a list might be prepared and put before this committee for their consideration of what use, if any, could be made of it and to what extent it could form part of future accounting. Mr. Allen of the treasury board is here, and I will ask him to be good enough to make a few comments on this particular list, its purposes and the extent to which it is used in the treasury board itself.

Mr. J. C. ALLEN (*Director, Estimates and Administrative Procedures Division, Treasury Board*): Mr. Chairman, perhaps all I need say is that the statement we have presented to you is one which the treasury board had prepared in this form not only for its own purposes last year but for the possibility that the public accounts committee at that time might wish to study it. It has been mentioned that it is the board's usual practice periodically to look at grants, subsidies and like payments in this form as well as in the context of the individual estimates programs in which they are contained. Our understanding of the purpose for which the committee wished the statement made up in 1961, was in order that it too might have this total picture of grants and subsidies and make a similar review or special study.

At this point no attempt has been made to update this statement to this point in time. It being a living thing, at this point, the statement could be brought up to date to include main and supplementaries A, B, C and D for 1963-64. Within a few months we will be able to add more information from the main estimates for 1964-65 a month or so after that further information will be available from the final supplementaries for the current year. My only point in mentioning this is that at such point as the committee might like to address itself to this subject in detail, we could update it.

The CHAIRMAN: Thank you, Mr. Allen.

Mr. Henderson, do you have any comments to make as to the value of this list and the use to which it could be put with relation to the work not only of this committee, but also others interested in the public accounts of the country?

Mr. HENDERSON: Mr. Chairman, members of the committee might check me on this, but my recollection is that I believe it was Mr. Winch who brought this up in 1961 with the feeling that it would be useful to have a picture of the total costs in the subsidy and grant field, in order to form some idea of what the total cost is and in what directions it is being disbursed. It does seem to me, just from my first glance at this today, that it might be useful to consider accepting Mr. Allen's offer to update it, and at the same time you might wish to give consideration to including some of the deficits of some of the agencies and crown corporations in this field. For example, the first place I looked was under agriculture to see whether the deficit of the board of grain commissioners might in fact have been recorded there, but as you will see it is not.

I do not know whether or not you would consider it useful to include the results of the agencies and corporations along those lines. I realize there might be a question in respect of whether they are subsidies or grants for the provision of a national service for example, but at least if you feel you would like

to see the total picture of all forms of assistance, then it would seem to me that these other factors should perhaps be included.

The CHAIRMAN: On page 30 I see that the family allowances are included there as miscellaneous grants to or on behalf of individuals.

Mr. HENDERSON: Yes.

The CHAIRMAN: I noticed that apropos of what you were saying.

Mr. HENDERSON: Yes. I think, as Mr. Allen says, the treasury board staff have sought to encompass all the items which were readily to hand. As I recollect, again from the discussion in 1961, I think the suggestion was made that such a list should include family allowances. That may explain why family allowances are there.

The pages here are not totalled. It might be unrealistic to total them all in one basket, but there might be some subtotal arrangement you might wish to consider.

Mr. ALLEN: I might add one word. We have not totalled or tried to direct attention one way or the other in this categorization. What we have here is the sum total of everything coded under standard object 20 in the annual Estimates, and a few things selected from object 22 of like nature. As the Auditor General has mentioned, we have not totalled them. We are not suggesting that these categories, or the way the items have been distributed, would be most useful to you. That happens to be the way the treasury board has looked at it.

Apropos of a total or adding certain additional items, as the Auditor General has mentioned we consider that each body which may wish to look at this will have its own view of what should be contained, and the manner in which it might best be distributed for consideration by that body. Whatever way you would like it and whatever content you would like to have in it, we would take as our terms of reference for the statement we would prepare for you.

The CHAIRMAN: Thank you. Are there any questions members of the committee might have in respect of this statement?

Mr. McMILLAN: This does not show our total contribution to the United Nations. Is there any place where we might find an agency of the United Nations such as the world health organization, and so on?

Mr. ALLEN: I think they are all in one item here.

Mr. HENDERSON: Probably page 2, assessments for membership in international organizations, \$6 million odd; it is probably in there. You would like to see it broken down?

Mr. McMILLAN: Not necessarily, but I thought it might be of value to us if we knew how much was for the world health organization, how much for ILO, and so on.

Mr. STARR: I realize all this needs a little homework and an adding machine, but I wonder whether Mr. Allen has appellations to show how much of an increase has been made in the over-all picture of grants, such as special payments between the years 1962 and 1963, and whether there has been an increase or decrease, and possibly a breakdown in the three areas, grants, subsidies and special payments.

Mr. ALLEN: I do not have that here. A quick answer is that the information in respect of those years would be obtainable from the standard special statement enclosed in the envelope at the back of those books. Except for a very few items not coded to object 20, this listing relates to object 20. We can also arrive at the answer by totalling these items, we can do that. I can do that either for this statement or for an up to date statement.



Mr. STARR: In the main, I think all items listed here are matters of policy for the government. I think it is useful to satisfy our curiosity and that is about all.

The CHAIRMAN: I quite agree.

Mr. GRAY: I was a little curious as to why the grant to the NATO parliamentary association was listed at page 23 under grants to societies and private organizations, whereas the grant to the commonwealth parliamentary group is listed on page 8 under grants to international organizations. I always thought they were exactly the same type of organization.

Mr. ALLEN: I think one is a grant to the Canadian branch of the association, sir. This is my understanding of it. You were referring to the entry on page 23?

Mr. GRAY: Yes.

Mr. ALLEN: The Canadian branch of the commonwealth parliamentary association. Is that the entry you were reading?

Mr. GRAY: The one just above.

Mr. ALLEN: The Canadian North Atlantic Treaty Organization parliamentary association.

Mr. GRAY: The commonwealth one is listed under international organizations. I suppose possibly that is because of the grants in the commonwealth case go directly to the international secretary in London, and the other probably through us.

Mr. ALLEN: This is the criterion which determines the categorization of one item as international and the other as domestic. This item on page 23 is listed within the domestic area and presumably support activity within the country.

Mr. GRAY: I do not think that could be right. I believe in both cases the amounts are used to support the international activities.

Mr. ALLEN: I am afraid I am not making myself too clear. In the simplest terms categorization in estimates is related to where the dollar is directed in the first instance. This is not always satisfactory if you look more deeply into things, but in most of the classifications we employ we show where the dollar goes first. Where it is later used by the people who get it first is another thing.

Mr. GRAY: I would suspect that in the case of the NATO group the Canadian branch forwards the money to the international secretariat in Paris; whereas in respect of the commonwealth payment it goes directly from here to the international secretariat in London.

Mr. ALLEN: That sort of arrangement would make for a difference in our categorization.

Mr. OLSON: All I was going to say is that after having looked at this list for a little while I find it is a very useful document, but as to categorizations and what is or is not a subsidy, grant, and so on, is a matter of opinion. For example, Mr. Henderson raised the point that a deficit to the board of grain commissioners might be considered a subsidy. I suggest that perhaps all the payments that are made under the weights and measures division of the Department of Trade and Commerce would be a subsidy also because actually the functions of these two bodies are very similar owing to the grades and weights being standardized. So it certainly becomes a matter of opinion what is a subsidy and what is not a subsidy and which category it falls into.

Mr. HENDERSON: I am fully appreciative of the various interpretations brought forward.

The CHAIRMAN: Would it be the feeling of the committee that we should not do anything definite at this time? We might make some provision in our report for future use for some changes as to categorizations, and possibly at a future meeting, after Mr. Allen has had a chance to read your remarks and

what we might say in the report, he might come back. Obviously no quick determination is going to be made, but it is a matter of how it best can be used. Could we consider it in our report?

Mr. FORBES: Probably if we had our estimates before us we could get a breakdown of these various amounts and that would be our explanation.

Mr. HENDERSON: Would you wish the figures updated before this was done?

The CHAIRMAN: Would it be the feeling of the committee that before we do make any final decision, or if we do, the figures should be brought up to date rather than left at the year 1962-63? This would include the present estimates and the supplements for 1963. We would then have the whole picture before us. Thank you very much, Mr. Allen.

Now the final item which appears on the follow-up report, the other items having been dealt with, is on page 22, the Polymer Corporation Limited.

Mr. HENDERSON: I can report here, Mr. Chairman, as I have stated, that I was appointed an auditor of this subsidiary company and subsequently have been appointed an auditor of all the other subsidiary companies of Polymer Corporation Limited.

The CHAIRMAN: I suppose from time to time in the future you will be making reports on one of the corporations?

Mr. HENDERSON: Yes, as auditor for Polymer Corporation, the parent company, and for its subsidiaries I sign and report on these accounts to the House of Commons and include a summary of the results of the financial operations in my annual report to the house each year. In fact we shall be coming to that section as we go through the 1962 report in respect of their operations in Canada and abroad during that fiscal year.

The CHAIRMAN: That now completes our discussion on the follow-up report, saving those items which have been stood over.

We now come to the Auditor General's report for the fiscal year ended March 31, 1962, which is in this volume which I hope all members have with them and which we will all require for all the meetings from now on. Subject to your approval, I have looked through this and in discussion with Mr. Henderson we have agreed that these items fall into natural sequence of groups. I am going to try to call them in that sequence, allowing full right for discussion of any one item but as they come within the natural range we might limit ourselves to the particular group which I call at the time. With that in mind I will turn to page one of the report. You will find items in paragraphs 1 to 4 of the Auditor General's report. I think they might well be dealt with together, with a comment if any from Mr. Henderson.

2. In accordance with the requirement of section 70 of the act, a report is now made to the House of Commons on the results of the audit examinations for the year ended March 31, 1962. Subsection (1) of the section reads:

The Auditor General shall report annually to the House of Commons the results of his examinations and shall call attention to every case in which he has observed that

- (a) any officer or employee has wilfully or negligently omitted to collect or receive any money belonging to Canada,
- (b) any public money was not duly accounted for and paid into the consolidated revenue fund,
- (c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by parliament,

- (d) an expenditure was not authorized or was not properly vouched or certified,
- (e) there has been a deficiency or loss through the fraud, default or mistake of any person, or
- (f) a special warrant authorized the payment of any money, and to any other case that the Auditor General considers should be brought to the notice of the House of Commons.

3. The statement of expenditure and revenue for the year ended March 31, 1962 and the statement of assets and liabilities as at that date, prepared by the Department of Finance for inclusion in the public accounts, have been examined and certified by me as required by section 69 of the Financial Administration Act, subject to my comments in this report. Copies of these financial statements are attached hereto as Appendices 1 and 2. The "summary of appropriations, expenditures and unexpended balances, by departments" and the "summary of revenue, by main classifications and departments", both as included in the Public accounts, have also been examined and certified and copies are attached as Appendices 3 and 4.

4. The report contains explanatory notes in paragraphs 29 to 45 regarding the major variations between the 1961-62 and 1960-61 expenditures. There is also submitted, as Appendix 5, a summary of expenditure by standard objects for the year ended March 31, 1962, with comparable figures for the preceding fiscal year.

Mr. HENDERSON: These paragraphs are merely introductory, Mr. Chairman, it having been my practice to quote the requirement of section 70 of the Financial Administration Act which is set out for the benefit of the reader.

Paragraph 5 which follows is one on which I should appreciate any comments.

5. It will be noted from the Summary of expenditure by standard objects (Appendix 5) that the two largest items of expenditure continue to be interest on the public debt and civil salaries and wages. Together they totalled \$1,669 million and represented one-quarter of the total expenditure for the year. The first of these items, namely, interest on the public debt, is the subject of a detailed appendix in the public accounts. With reference to civil salaries and wages, Appendix 6 to this report gives a summarized listing showing the numbers of employees authorized for the public service by departments, together with crown corporations and other instrumentalities, at the close of the fiscal year under review in comparison with the numbers at the close of the preceding year, prepared on the basis explained in the footnotes to the appendix.

This explains the reason why for the past two years I have been putting in Appendix 6 to this report.

The CHAIRMAN: May I interrupt to say that Appendix 6 appears on page 149 of the report itself.

Mr. HENDERSON: On page 149, Appendix 6. We have prepared this very simple summary of employees authorized for the public service by departments, crown corporations and other instrumentalities of the government and compared the figures with like figures for the previous year. The purpose of furnishing you with this exhibit has been that because after interest on the public debt in our expenditures, the next largest item of expenditure is that of civil salaries and wages. It seemed to me reasonable to have a listing showing the size of the various departments, crown corporations and other agencies by way of information to the reader to show the growth in size from year to



year of our public service and what subsidiary boards, committees and other departments list in the organizational structure of each of these departments and crown corporations. Whether or not you find this a useful reference to have from year to year I do not know because this is the first time we have had an opportunity to discuss it.

If you do feel that it is useful information to have in one place it would be my purpose to continue it in effect and to refine it in more detail along any other lines you may care to suggest.

Mr. SOUTHAM: Mr. Chairman, on the basis of the Auditor General's comments, I think he should be commended for this summary. I think it certainly is very useful, and if we continue in this way we can refer to it from year to year. I think this would be very effective.

Mr. HALES: Mr. Chairman, I should like to substantiate Mr. Southam's remarks. I think this is a very well prepared document and worthy of great consideration.

Briefly, as a result of going through this document, I think we will all realize at this time the significant increase in the civil service staffs generally. To substantiate my remarks in that regard, I notice that crown corporations, which are expected to show a good profit and loss statement, are shown at page 153 as having reduced their staffs by 2,032 people during the same period that the government increased its staff by a similar amount. In other words, the crown corporations are cutting their costs and managing with minimum staffs.

I notice the Department of Citizenship and Immigration, and I have not picked that department out for any particular reason, have increased their staff by 166 people. Considering the fact that the number of people emigrating to Canada has decreased, I think we should be given an explanation in this regard. I suggest it is one of the purposes of the public accounts committee to direct attention to certain of these anomalies and seek explanations for continuing staff increases.

Mr. REGAN: Mr. Chairman, Mr. Hales has made reference in this regard to the Department of Citizenship and Immigration. He has made reference to a large decrease in the staff of crown corporations, and I should like to point out to him that probably part of this large decrease has resulted from the number of lines being closed and the installation of automation equipment across the country. If you deduct the Canadian National Railways decrease in staff from that total figure you will find that crown corporations have actually increased in staff to an almost comparable extent.

Mr. NOBLE: In looking over these figures here, Mr. Chairman, I notice that there has been a large increase in respect of employees in the department of indian affairs. The increase in this regard was 147, which means that the increase in regard to the Department of Citizenship and Immigration has only been two, from 136 to 138.

Mr. HENDERSON: Mr. Chairman, perhaps I could interpolate at this point. The manner in which we are preparing this now is not as accurate or as scientific as I would have wished, because I wanted to have your judgment and wishes regarding my approach to the various crown corporations and agencies for more specific and informative breakdowns. For that reason some of these comparisons here are somewhat invidious, as you point out. If it is your judgment that these statements serve a useful purpose along the lines Mr. Hales has been saying, then I would ask the departments and crown corporations, and all of the other instrumentalities listed here, for more precise figures for the purpose of compilation of this statement. This will enable a much fairer presentation of the information to be prepared.

Mr. RYAN: Mr. Chairman, I wonder whether the Auditor General could give this committee a rough estimate of the comparison between the years 1960 and 1961 so that we will have some idea as to what has happened during those two years?

Mr. HENDERSON: You may have my 1960-1961 report before you in which this statement was originally introduced, so that a comparison of the two years can be made. For example, we were discussing citizenship and immigration. That department had a staff of 4,702 in 1960. It increased in 1960 by 170, to 4,872 and, as has just been observed, has now increased to 5,038.

Mr. RYAN: I was interested in the over-all area comparison.

Mr. HENDERSON: The total for departments as a whole in 1960 was 193,216 which, as you will see in March, 1961, had risen to 195,310, and in March, 1962, to 197,331.

Mr. RYAN: What are the figures in respect of crown corporations?

Mr. HENDERSON: The figures in respect of crown corporations are; in March, 1960 the total staff was 138,000 and in March, 1961, 132,009 and in March, 1962, 130,000. However, we must remember and keep in mind the fluctuating figure in regard to the Canadian National Railways, which in 1960 was 103,237, and in 1961 had fallen to 96,621. You will note also that the number of employees authorized in March, 1962 was 94,216.

I have not asked the Canadian National Railways to furnish details of these figures to me. I am not the auditor of the Canadian National Railways, as you know, and I have not asked them to furnish me with anything other than total figures to complete this statement for its overall purpose. If you feel, as I think has been indicated, that this statement is a useful one to have, then in preparing it next year I will ask for an appropriate informative breakdown here as well as in respect of the other corporations.

Mr. RYAN: I am sorry, I was under the impression that there was not a prior report.

Mr. HENDERSON: I only started submitting this report in 1961. I felt that I should not put too much work into the report until I had had the benefit of a discussion with you as to whether it served a useful function or not.

Mr. RYAN: Thank you, sir. I certainly agree that it does serve a useful purpose.

Mr. MCLEAN: Mr. Chairman, I notice that the number of employees might increase or decrease and the cost in regard to those employees might also increase or decrease. For instance, the number of employees might increase while the cost of carrying those employees might decrease.

Mr. HENDERSON: Mr. McLean, elsewhere in my report I comment on the results of the operations of many of the corporations and agencies for the year, and in a number of instances have referred to that particular aspect.

Mr. MCLEAN: Do we have information in this report before us concerning the amount of money paid these employees last year so that we can make this comparison?

Mr. HENDERSON: In respect of any specific case you might like checked, I will be glad to do so.

Mr. STARR: Mr. Chairman, I should like to ask Mr. Henderson to indicate his opinion of the anticipated result of the freeze put into effect about the middle of last year in respect of establishments, and the anticipated result from the lifting of this freeze? I realize that there will be a great temptation on the part of departments to fill as rapidly as possible all positions which

these departments require so there might well be a tremendous influx of employees between the time the freeze was lifted and the end of the year, or perhaps March 31 of next year.

Mr. HENDERSON: You are speaking of a development that took place in the fiscal year following the one we now have before us, and I would not want to answer that specifically unless and until I studied the precise figures.

Mr. STARR: I would imagine there is quite a rush to fill all these positions again.

Mr. HENDERSON: I think the freeze still applies in a number of departments.

Mr. STARR: But have not some been lifted?

Mr. HENDERSON: It was lifted in my case on July 13 but they did not tell me about it until October 3, which was a contributing factor to my own troubles!

The CHAIRMAN: I would presume these figures will be updated in the second report you make.

Mr. HENDERSON: Yes. I am now finishing up my 1963 report, as I mentioned earlier and, in point of fact, I include this schedule again in that report; but, naturally it has been prepared on the same basis as the past two. So, it will be a year from today before I can begin giving effect to the more scientific manner and detail you would like to see.

Mr. STARR: Are you able to give us a clearer picture what has been done in this area? Could you tell us what departments or portions thereof the freeze has been lifted and what departments will remain in that category?

Mr. HENDERSON: I can obtain these figures. I would be pleased to discuss the matter with the civil service commission, who probably have these statistics.

Mr. STARR: I understand the unemployment insurance commission now are going to strengthen their operation by some 300 new employees.

Mr. HENDERSON: Would you like to have me speak to Mr. MacNeill and produce a statement later on this matter?

Mr. STARR: I think it would be useful to know what the policy is.

The CHAIRMAN: Perhaps I should add we are not an estimates committee. But, in this connection, I think we are considering the wisdom of this service which Mr. Henderson is providing, and I think the question which Mr. Starr has raised will indicate how it could be made use of. As I said, we are not an estimates committee and I think we would be embarking outside the functions of this committee if we considered questions in terms of estimates. However, to illustrate the wisdom or not of this service is not an unreasonable question, in my opinion.

Mr. HALES: Perhaps my question has been asked before, Mr. Chairman, but who has the authority to hire more people in a government department?

Mr. HENDERSON: Well, the treasury board approves of the authorized establishments, which are the figures I am using here. As I say, these figures come out of the estimates. The establishments have to be approved by treasury board, and the department then looks to the civil service commission to find the people for the positions that have been so approved.

Mr. HALES: So the authority rests with the treasury board?

Mr. HENDERSON: Yes.

Mr. HALES: That is, in respect of the establishment of any government department?

Mr. HENDERSON: Yes.

Mr. STARR: But submissions are made by each department to treasury board officials?



Mr. HENDERSON: Yes, they originate it. The approving authority is treasury board but the departments submit their estimates a year ahead of their requirements to show what they will need to carry out their responsibilities.

Mr. HALES: Mr. Chairman, perhaps at a later date we could have the treasury board people here in order to pose some questions along these lines. This, to my way of thinking, is a very very important matter. The establishments are going down, down and down, and yet the expense to the taxpayer keeps going up.

I notice in the finance department, under departmental administration, they have reduced their staff by 215 people and yet there is more and more money being handled all the time.

The CHAIRMAN: As I said last time, Mr. Bryce and some of his officials were to be here today but they are engaged in the preparation for the federal fiscal conference, and after they have recovered from that they will be available to appear before us late in December.

Mr. Bryce has agreed to appear as there are a number of items in the report with which he is concerned. We are directing his attention to these items and he will be here, at which time possibly some of these questions can be directed to him.

I think the discussion we have had illustrates, in my view, the ability to pick up quickly comparisons from this appendix which Mr. Henderson has made available in the final report.

Mr. McMILLAN: Mr. Henderson, those are employees authorized.

Mr. HENDERSON: Yes.

Mr. McMILLAN: They are not revising the picture of the number of employees?

Mr. HENDERSON: No. It could be expanded on the basis of people on the job but we took the employees authorized figure as shown by the estimates.

Mr. McMILLAN: For instance, if there was a bad crop in the west they perhaps would hire more under the P.F.R. Act.

Mr. HENDERSON: Yes. They might have gone back to treasury board and asked for more people. As I say, we have just taken these figures out of the estimates book because it seemed the fairest way to prepare this first approach.

I still think you would want this on the basis of employees or establishments authorized rather than on the basis of people on the job. That is how you vote the money: it is based on the people that are authorized and, I think, for comparison purposes that would be the best basis.

Mr. GRAY: Would it not be useful to know how many are working in fact? If the establishment is not used completely we might be getting a misleading picture.

Mr. HENDERSON: It would be quite simple in respect of the current year, in the case of 1962, for example to obtain the actual working strength and to put it in another column, if that is your wish.

Mr. GRAY: I would suggest that. Is it not true if there is a vote the department does not necessarily expend the entire vote?

Mr. HENDERSON: Absolutely and, moreover, in the case of crown corporations not all of them work on the approved establishment principle. I am not suggesting they do not control their staffs but they do not all work quite the same way the departments do and, as some of my notes indicate, in some cases, I have taken the actual people on the job. For instance, in the case of the C.N.R. the figure represents the people who were on the payroll the

dates given. I do not know whether or not they work on the employees authorized basis. I believe these are the people actually on the job, that is on their payrolls.

Mr. GRAY: So, it would not be a real problem to add an additional column.

Mr. HENDERSON: No, because I get this information by request from the agencies and departments. They just have to give me another figure, the people authorized and the people on the job. It is a compilation rather than an auditing job.

Mr. GRAY: I would recommend for the consideration of my colleagues on this committee that we ask the Auditor General to proceed in that manner.

The CHAIRMAN: Perhaps, Mr. Gray, when we make up our report we might bring back to the committee suggestions along this line in order that we may come up with a reasonable request for Mr. Henderson as to the extent to which there should be an extension of this particular item.

Mr. CROUSE: I would like to endorse what Mr. Hales said. In all my travels I find that the greatest single concern of the Canadian people today is the growth of employees in the government establishments. I think we should have a little better understanding or a little clearer explanation how these employees are added to the rolls. This is a growing burden on the taxpayers of Canada and, as I say, it is causing a great deal of concern. In my opinion, we should have a few more facts as to how the various departments add to the number of their employees that are on the payrolls.

The CHAIRMAN: Thank you, Mr. Crouse. That might serve as a useful preamble to our review of this report.

May we now pass on to paragraph (6).

6. A number of the matters dealt with in this report have been commented upon in previous reports. Where the matters in question had been made the subject of recommendations by the standing committee on public accounts—mainly in the case of items in my 1960 report, which had been considered by the committee during its 1961 meetings—the recommendations made by the committee have been quoted and comments made regarding the action, if any, taken by the departments concerned.

As there have been no meetings of the committee to date in 1962, the matters dealt with in my 1961 report have not received consideration by the committee.

Mr. HENDERSON: Paragraph (6) explains how it is my practice to update my report comments in connection with matters which have been made the subject of recommendations by the committee in a previous year and so on. While some of the comments here refer to facts arising in the year under review they thus come before you again updated with another year's facts.

The CHAIRMAN: Paragraphs (7) to (14) appear to be one group.

#### *Scope of the Audit*

7. Examinations of the departmental accounts for the year ended March 31, 1962 were made in conformity with section 67 of the Financial Administration Act, which reads:

The Auditor General shall examine in such manner as he may deem necessary the accounts relating to the consolidated revenue fund and to public property and shall ascertain whether in his opinion

(a) the accounts have been faithfully and properly kept,

- (b) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the revenue,
- (c) money has been expended for the purposes for which it was appropriated by parliament, and the expenditures have been made as authorized, and
- (d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

8. Although the audit office has continued its comprehensive audit approach during the past year, I must report that it has not been possible to carry this forward to the extent outlined to the House of Commons in my 1960 report, and to the standing committee on public accounts in both 1960 and 1961, for the reason that I continue to be unable, under existing governmental recruitment procedures, to obtain the full staff approved by the treasury board for my office. The approved establishment was 159 for 1961-62 and 179 for 1962-63, the latter figure being the minimum strength which, as stated on page 111 of last year's report, I regard as necessary to carry out a basic external audit program within the framework of the existing governmental organization. On October 31st last our actual working staff numbered only 150 compared with 152 on October 31, 1961. The recruitment difficulties are explained in paragraphs 21 to 23 of this report.

9. Examinations have continued to be conducted on a test basis in accordance with past practice, the extent of the tests varying according to the nature of the transactions and the effectiveness of internal controls. The extent to which these test examinations have been limited by recruitment difficulties has become a matter of serious concern. In too many instances staff shortages have resulted in the audit office being unable to make test examinations of departmental records with sufficient frequency or in sufficient depth to achieve the minimum standard required by accepted auditing practice—or being obliged to curtail its work in other directions.

Subject to these limitations, our examinations were made in accordance with generally accepted auditing standards and continued to include a general review of the accounting procedures and systems of internal control together with such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

10. The attention of responsible administrative and accounting officers was directed to transactions which, in the audit office view, were not in harmony with annual parliamentary appropriations or continuing statutory directions, or which lacked conformity with executive orders or regulations.

11. Our examinations extended to all departments, crown corporations and other agencies of the government of Canada, excepting those listed in paragraph 154 whose accounts were examined by other auditors.

12. The accounts relating to the receipts and disbursements of the audit office were examined by an officer of the public service nominated for the purpose by the treasury board, as required by section 75 of the Financial Administration Act.

13. During the course of their work, members of the staff of the audit office were, with the exception noted in paragraph 95 of this



report, given full access to all vouchers, records and files of the various departments, crown corporations and other agencies. In addition, they were readily provided with all supplementary information and explanations required. I take pleasure in expressing my appreciation for the co-operation thus extended by departmental and treasury officers and by the administrative and accounting officers of crown corporations and other agencies.

14. The audit office has addressed detailed reports to the executive boards of crown corporations and other agencies covering the results of its examinations during the past year. These reports outline the scope of the audit, give a broad summary of the results of operations for the financial year in comparison with previous years, and make comments and offer suggestions regarding weaknesses in internal control and other matters noted during the course of the audit. Where matters dealt with in these reports were considered to be of interest to the House of Commons, references are made in later sections of this report.

As stated in my report last year, it remains our intention to extend the issuance of detailed reports to the heads of government departments. However, this cannot be done until the audit office staff strength is brought up to its approved establishment.

Mr. HENDERSON: This, gentlemen, is a standard description of the scope of my work and, as you will observe in paragraph (8), I reported it had not been possible to carry this forward to the extent outlined to the house or the public accounts committee 1960-61 because I had not been able under the existing governmental recruitment procedures to obtain the full staff approved by treasury board. This, correspondingly, had its effect on the scope of the work in my office, and as I go on to say in paragraph (9), the extent to which these test examinations have been limited by recruitment difficulties has become a matter of serious concern to me.

This situation is still present. But as a result of the agreement that I have reached with the Chairman of the civil service commission, which the Chairman announced this morning, I am confident that I shall be able to overcome my staff difficulties. Now that I am in the position to do my own recruiting, I shall be devoting all my energies to overcoming the situation I have described here. I shall require a few more positions on my establishment, and I shall be making a request for them in the normal way to the treasury board. Under the system we have already mentioned, the treasury board must give its approval.

New departments come along, new agencies are created and new corporations are formed. Consequently the size of our work is increasing. This is a qualification in the scope of my work which I hope I shall be able to remove from my report to the House of Commons in due course. It is of course continuing, as you are aware, through the fiscal year ending March 31, 1963, and it is unfortunately continuing at the present time through 1963-64 because only today have we reached the position where I can recruit my own staff. Perhaps some of the members may have questions.

The CHAIRMAN: Yes, Mr. MacLean?

Mr. McLEAN: Do you set your examinations and then recommend them to the civil service commission, or do they set the examinations?

Mr. HENDERSON: Thus far the civil service commission have been setting the examinations and hiring my staff.

Mr. McLEAN: Is that not sort of doing it the wrong end up?

Mr. HENDERSON: I thought so, sir. It has handicapped my obtaining the staff that I required for the work, and that has been one of the reasons I have been making requests, which this committee has supported since 1960, that I be

given the right to recruit my own staff. I have only now just completed an agreement with the chairman of the civil service commission whereby I am to be given this right. The civil service commission was very co-operative in these discussions. I have now every reason to believe that I can carry on within the framework of the present situation, and I shall be doing my best to make it work.

The CHAIRMAN: You were not here at the beginning of the meeting, Mr. McLean.

Mr. McLEAN: No, I was not. I was at another committee meeting, and I did not get here until late.

The CHAIRMAN: Mr. Henderson and Mr. MacNeill were asked to report back this morning at our direction to see if they could not come to an accommodation. They did so, and I read into the record the details of it. And Mr. Henderson has said that he feels that it is something which will meet his difficulties.

Mr. FANE: Carrying on with Mr. McLean's question, I would like to ask Mr. Henderson why throughout these several years he has not been able to come to an agreement with the civil service commission earlier than this week in the matter of the hiring of staff?

Mr. HENDERSON: Well, sir, the records of this committee since 1960 set forth all the various moves which were made in order that I might have complete freedom of recruitment. Your committee has been good enough, beginning in 1960, to consider that there should be an amendment to the Financial Administration Act. But such an amendment would be quite a lengthy one and would have to take care of the situation as it is today. So the discussion went on and on and on. You sometimes get a little worn down by all this waiting. Moreover I have been very anxious to get on with the job. To me the job comes first rather than the red tape and the mechanics behind it.

I have had talks with previous chairmen of the civil service commission with whom I have not been able to come to the type of accommodation I have reached with Mr. MacNeill. He appreciates the objectives and the standards that I want, and how I propose to go about it. He will supply me with a personnel man, that is, a staff man in my office, and as I say, I shall do my best to make it work.

Mr. FANE: I have wondered ever since I came down here why the government of Canada is so sticky all the time, and why there has been so much red tape so that you cannot get anything done.

The CHAIRMAN: You see how the public accounts committee has acted as a cupid to bring together all these inseparable elements.

Mr. RYAN: In item 13 of the report I read as follows:

...with the exception noted in paragraph 95 of this report...

This takes us over to page 42, which notes the situation where access to taxation collection files was refused. I wonder if the Auditor General would bring the committee up to date in this matter?

13. During the course of their work, members of the staff of the audit office were, with the exception noted in paragraph 95 of this report, given full access to all vouchers, records and files of the various departments, crown corporations and other agencies. In addition, they were readily provided with all supplementary information and explanations required. I take pleasure in expressing my appreciation for the co-operation thus extended by departmental and treasury officers and by the administrative and accounting officers of crown corporations and other agencies.

Mr. HENDERSON: This was another case where the committee supported me. This had to do with the demand made by officers of my department for access to certain income tax files. This matter was discussed last February when the public accounts committee held a series of five meetings. The Hon. Mr. George Nowlan who was then Minister of Finance, appeared before the Committee because this denial of access had taken place at the time he was minister of national revenue. The matter was fully discussed before the Committee and as a result the files were made available to me. Therefore this is one paragraph you will not need to consider at this time.

Mr. RYAN: That is fine.

Mr. REGAN: I would express the hope that now you select and hire your own staff you will keep in mind the sentiments of Mr. Hales in respect to size.

Mr. HENDERSON: I will indeed. My staff is very small in size but very high in quality, sir; that is always my goal. I have an approved establishment of 179. I shall find it necessary to ask the treasury board to approve an establishment of 183 or perhaps 184. I do not foresee any large scale increases ahead, though it may be necessary in the next five or six years to increase to 200 or 225, but not much more. As the size of government grows and my services are required in various new crown corporations which are coming along, I naturally have to have the tools with which to do the job.

Mr. WAHN: Mr. Chairman, I would like to deal with the general heading "Scope of the Audit". Is it within the scope of Mr. Henderson's duties to report to this committee cases in which activities are being carried on by governmental staff which equally well could be carried on by private companies or individuals?

I have in mind that, for example, we have expenditures by the national film board. No doubt a certain amount of work is done by employees of the national film board which could be contracted out to private individuals or companies, and the same thing would apply perhaps to the department of printing and to some activities of the department of veterans affairs. I would add, at the risk of making myself unpopular with Mr. Henderson, that this could also apply even to his own audit staff. When, for example, a new crown corporation is created, why is it desirable to increase the staff of the Auditor General to cope with that work rather than to have the audit carried on by one of the many responsible firms of auditors in this country?

Of course I am expressing a political philosophy here, but my feeling is that generally speaking it is better to have things done outside the government service than by the government service, unless there is some affirmative reason for having the work done by members employed by the government. All the private corporations pay income tax which comes into governmental revenues. I think it would be extremely useful, if it is within the scope of this committee's responsibilities, to have a continuing check on the almost inevitable tendency on the part of government to take over activities which could very well be carried on by private firms and individuals. They in turn would pay tax to the government and help support the civil service which is actually required.

Is consideration of this type of thing within the scope of this committee?

Mr. VALADE: Mr. Chairman, with regard to the point of Mr. Wahn, I would say it is quite obvious that the money is being spent with the authorization of parliament because parliament is obligated to check and vote moneys, and it is natural that parliament should have reports made to it by the Auditor General on the spending of this money. The House of Commons needs to have control of the spending of these moneys, and no one is better placed than the Auditor General to fulfil this purpose.



Mr. HENDERSON: Mr. Wahn, I have not hesitated to speak out where I have thought public money could be saved by doing the work in another way, although the real approach that has been brought to bear on that subject has been brought by the royal commission on government organization, whose reports are now before us.

In the field of auditing, I can only say that the appointment of an auditor traditionally is at the discretion of the owners of the business, namely the stockholders. I regard the stockholders of the Dominion of Canada to be the taxpayers and parliament. As Mr. Valade has said, parliament naturally wishes me, as the appointed officer of parliament and its Auditor General, to be the examiner of those records. However, may I say that in the case of one crown corporation which has subsidiaries abroad, namely Polymer Corporation, that, while I have been the auditor of Polymer Corporation from its inception, I am also the auditor of all of its subsidiaries abroad, but a joint auditor in the case of these subsidiaries with a private firm which has been employed to do the work abroad, thereby saving me the cost of sending my own people to do that work. We work extremely well together, but it is from me that parliament receives the report on the complete Polymer enterprise.

Mr. WAHN: That makes sense. It is done in the same way as many companies with foreign subsidiaries do their audits. In many cases the subsidiaries will be audited by auditors in the country in which they are located, but the final report will be given by the principal auditors in this country.

My question was merely directed towards finding out whether it is within our authority to examine expenditures of public funds for work performed by public staffs which could equally well be performed by private business. I naturally have a preference for private business to perform these functions when private business can perform the functions equally well, because private business pays tax to the government, whereas the employees of government do not, except for personal income tax.

Mr. HENDERSON: I can only repeat that this is the prerogative of the stockholders of the enterprise; they may appoint whoever they wish to appoint as their auditors.

The CHAIRMAN: Mr. Wahn, this came up at another meeting and I think a ruling was given, with some authority, to the effect that we were a fact finding body and not a policy making body. To that extent, there may be inferences drawn from the finding of facts which may be reflected in policy. As I read the ruling of the chairman, now the Speaker, it was that we could not direct ourselves to policy; that we must be relegated to facts, though from these facts inferences might be drawn or arise.

Before we go further with this, may I ask the indulgence of the committee for a moment? I asked Mr. Moran, the director general of external aid, to come here today. There is one matter in the follow-up report which we have not reached, and which appears also in paragraph 61 of the Auditor General's report, with which Mr. Moran may deal. He has been absent and he has been engaged, but I asked him if he would be good enough to come here today at 10:15, at which time we might be able to discuss this item.

Without closing off the items which have been under consideration, with your permission I would like to ask Mr. Moran to deal with the delay in recipient countries' certification for counterpart funds.

This is Mr. Herbert Moran, the director general of external aid. The item with which we have asked him to deal is shown at page 19 of the Auditor's General's report, and also in the Auditor General's follow-up report. I think it could be disposed of in both instances by Mr. Moran's comments at this stage.

Mr. VALADE: I have here the French version of the Auditor General's report. In paragraph 10 it is stated—and I am translating now—that the financial directives were not in conformity with ordinances and rules. Is that related to the report of Mr. Moran?

The CHAIRMAN: Mr. Henderson might be able to answer that.

Mr. HENDERSON: We are dealing with paragraph 61 of the 1962 report. It was covered in the follow-up memorandum.

Mr. VALADE: Does the observation made in paragraph 10 bear any relation to paragraph 61?

Mr. HENDERSON: No, paragraph 10 is a general reference. We do direct the attention of officers throughout the whole service to transactions which in our view are not in harmony with the appropriations.

Mr. VALADE: It has no bearing on this.

Mr. HENDERSON: No. Mr. Moran is here to speak to this matter of the delay in recipient countries' certification for counterpart funds.

The CHAIRMAN: Mr. Moran, have you any comments to make in respect of this particular item?

Mr. H. O. MORAN (*Director General, External Aid Office*): I do not know that there is a great deal I could add to the comments I made when I had the privilege of appearing before this committee, I believe, two years ago.

This is a procedure which was introduced, for various reasons, many years ago. I am not sure I am in complete agreement with it. I believe Mr. Henderson himself has some doubts in regard to whether it is the most effective way of reaching the objective we had in mind.

When I appeared before this committee the last time I said the failure to obtain these certificates did not come as any surprise to me. These countries do not have the degree of administrative efficiency we know in Canada. It is all part of their underdevelopment. If they had the administrative skills and things of that nature, then to a large extent they would not be requiring the help we are giving them.

These last few minutes I listened with interest to the comments of Mr. Henderson in respect of his staff problems. The Auditor General's office in some of these underdeveloped countries also has severe staff problems. They have the additional difficulty of obtaining qualified persons because there is a very narrow layer of trained administrative people; also they are overburdened, overworked. So, for a variety of reasons, I am not surprised we have encountered the difficulties we have. Having said all that, personally I do not have a serious concern about the absence of auditor general certificates.

In each of these countries there is a department of government which has been given the responsibility of looking after their aid matters. In India, for example, it is the economic affairs section of the department of finance; in Pakistan it is also the economic affairs division. They report to us the proceeds from the sale of Canadian commodities given through the aid programs. That is why we have two sets of figures; we have the figures reported by the government department and we have the figures certificated by the Auditor General. In our office we really have not had any difficulty in reconciling our figures with those reported by the responsible departments of overseas governments concerned with aid matters.

When I was last here, I expressed personal concern about another aspect of the counterpart fund; that is, the large amounts which had been permitted to accumulate over the years, amounts of counterpart funds which were not committed to any economic development uses in the recipient countries. On that occasion I pledged myself to two things; first to aggressively continue the efforts we had been making to obtain these certificates, although I looked on this as more of a technical or procedural matter.

Secondly, I pledged myself that we would in the subsequent years reduce very sharply, whittle down, the amount of uncommitted counterpart funds. I think we have had reasonable success in both those fields over the past year if we bring these figures up to the end of the past fiscal year March 31, 1963.

On the question of certificated funds the picture is considerably improved. I have not had an opportunity of reading this paragraph but it appears to show that a total of \$180,296,000 had been expended and certificates had been received for only \$48,900,000. As of the end of this past fiscal year the following are the figures according to our records; the total expended on commodities which should be earmarked for counterpart funds was \$197,752,000 against which the auditor certificates have been received for \$154,159,000. In other words, just under 80 per cent of the funds have now been covered by the Auditor General's certificates.

I do not know whether there are any specific questions that members of the committee would like to ask me on these figures, but I would be prepared to answer as best I can.

Mr. HALES: Could Mr. Moran give us a concrete example, go through the steps of how this operates so that we can get a clear picture of it? For instance, could he tell us how Canada sells or gives to India, and so on, give us one example?

Mr. MORAN: First of all I would like to say that this whole question of commodities has taken on a new significance in Canadian aid programs in recent years. In the early years of Canadian aid—most of it went into capital projects such as power stations and transmission lines—countries such as India and Pakistan have now reached a stage in their development where what they require most are raw materials, things like base metals to feed that industrial base. Therefore, in recent years something in the neighbourhood of 50 per cent of our funds to Asia have taken the form of commodities. This has been a shift in the nature of the Canadian program. That in turn increases very sharply the size of the counterpart funds because it is only the commodities, only the consumer items, that generate counterpart funds. So that the problem today in keeping abreast of both certificates from the Auditor General and also the commitment of funds for use in those countries is much more severe now than it was in the earlier periods when very small amounts of commodities went into these countries.

The stages are as follows: when Canada receives a request for such things as aluminum or nickel or copper or fertilizers, items of that kind, these are purchased in Canada through the Canadian Commercial Corporation. They are delivered at seaboard because the receiving country pays all the shipping costs involved. The receiving country then, under its own arrangements, transports those items home where they are sold to consumers in the country. The local currencies obtained from those sales are earmarked for what we call a counterpart fund and those moneys are then used for purposes of economic development on projects agreed upon between the two countries. In other words, Canadian consent to the use of those funds for a particular purpose must be obtained. So there are two stages as far as the accounting is concerned, one is the Auditor General's certificate of the receiving country to state that rupees in this amount have been received from the sale of the Canadian gift commodities, and the next stage is the commitment of those funds for expenditure on certain development projects in the country. I think I am right in saying that we should really have a second certificate at the time of expenditure.

Mr. HENDERSON: Yes, it would seem reasonable if it were practicable.

Mr. MORAN: It is reasonable for accounting purposes to also have a certificate of expenditure at the time these funds are used. So you have the two steps



if you wish. First when funds have been generated we look for a certificate to say that the overseas country has in fact received this amount of rupees. The second is the actual use of the funds.

Mr. Henderson understandably is quite concerned with the first step. I place perhaps a little more importance on the second step.

Mr. CROUSE: According to your statement, we have no control over the funds in the second stage, and we do not receive a certificate indicating the application of these funds, as I understand your statement; is that right?

Mr. MORAN: Perhaps I did not make myself clear. I did not mean to leave that impression. When these moneys go into the fund they are to be used for purposes of economic development on projects agreed to by Canada and the receiving country, India, Ceylon or Pakistan. In other words, they cannot be used except with our consent and concurrence. They will propose to us the use of X hundred thousand dollars in rupees for the building of a road, or a school, which can be paid for by local currencies. We study the project to determine whether or not it will make a contribution to economic development. If the Canadian government agrees, then that amount of counterfeit funds is applied to that project.

Mr. CROUSE: The recommendation for that bridge would be made by the Auditor General's department, is that right?

Mr. MORAN: No. the Auditor General is involved only on the accounting side. The recommendation is made by the minister of development, or the minister of economic planning or the appropriate ministry involved. The Auditor General's role is one of accounting and issuing these certificates first on the receipt of funds and secondly on the expenditure.

Mr. HALES: Mr. Chairman, it would appear first that the system is wrong or, secondly, we are not making a great enough effort to obtain these certificates. I do not know which situation applies, but I have the impression from what Mr. Moran has told us he had much greater success in obtaining these certificates. Perhaps he could explain to this committee what method he has used to obtain these certificates, and how he obtained this greater success last year?

Mr. MORAN: I cannot go back past two years ago when the external aid office was set up. We inherited an accumulation of unspent counterpart funds of something in the nature of \$120,000,000. I was before the committee shortly after having assumed this responsibility and said at that time we would do what was reasonable and practicable in an effort to obtain these certificates. We have written continuously and persistently to the governments of these countries emphasizing the fact that this is an undertaking they have given, drawing their attention to this undertaking and pointing out that they are in default in respect of the certificates. When I have travelled in these countries I have taken up the matter personally with the finance ministers of the countries concerned.

I did not think it appropriate for me to deal with the auditors general directly, and I am not sure in these countries that the auditor general takes instructions from the ministers of finance. The ministers of finance are concerned with both the Canadian aid program and their countries' development programs, and they are anxious to meet our accounting requirements. I have talked with Mr. Shoaib, of Pakistan in regard to this matter on several occasions. I have talked to Mr. Desai of India I have not talked to his successor, Mr. Krishnamachari, since he has taken over. I have also talked to Mr. Bandaranaike of Ceylon. These are the three main countries involved. My pressure is actually put on the ministers of finance.

Mr. HALES: Have you used the services of the ambassadors or trade commissioners?

Mr. MORAN: These people represent our starting point. These are the men who first try to get them for us.

Mr. HALES: Do you still make personal contact with their offices?

Mr. MORAN: Yes, we make continuous contact. I would suggest that it is the poor fellow in the field who has to carry the greatest burden.

I think we now have a rather reassuring picture. If you think in terms of the actual amount of the counterpart funds up to the end of the last fiscal year, looking at the progress made in 1961 and the previous year, you will note the counterpart funds themselves have increased by \$17 millions, while the certificates obtained have been in excess of 100 million. Although we can never be satisfied with anything less than 100 per cent, I think there is reasonable satisfaction in the progress that has been made in this last year.

Mr. HALES: Mr. Henderson, have you any recommendations in this regard?

The CHAIRMAN: Before Mr. Henderson answers your question, I think perhaps we shall allow Mr. McLean and Mr. Ryan to ask questions. I see we are up against the inexorable ticking of the clock.

Mr. MACLEAN: I recently read reports on common market countries; these reports referred to the underdeveloped countries that were receiving foreign aid, and they said the time had come now when underdeveloped countries were receiving just about enough foreign aid to pay the interest on the aid they had received before and that these underdeveloped countries had to pay interest on the amount of \$2,500 million aid they had received before. I was amazed at this. I thought this aid was going out to the underdeveloped countries free.

Would it be possible for these counterpart funds to be used in paying interest aid they already had received?

Mr. MORAN: Well, although it is not my concern, I would first of all question the quoted figures. However, we are moving toward that suggested position in the future.

The world bank has prepared charts which are projected ahead and on the basis of aid flowing at about the same volume and under the same terms as at the present time. These charts show that a stage will be reached when countries will be paying out as much in repayment of interest and capital as they are receiving in fresh aid but, I do not think we have reached that stage yet.

Mr. MCLEAN: It is stated in this report that one of the big kicks of the United States was that they were receiving about one per cent, France was receiving 5 per cent on their aid, and England was receiving 5 per cent or more. Does Canada give aid on which they have to receive interest?

Mr. MORAN: It depends. This gets us into a pretty wide ranging discussion. Canada gives two types of aid, if you want to call both of them aid; we record both types in international forums as assistance. Canada has been at opposite ends of the aid spectrum; we give aid in the purest form in which it is available, namely grant aid, which involves no return of interest or capital. At the other end we have our long term credits which are repayable over periods of eight to twenty years at six per cent interest.

The announcement by Mr. Martin in the house last week indicated we are filling in the middle of this range. He announced, as you know, a soft loan program, which is the type the United States and I.D.A. makes, for a term of 30 or 40 years at perhaps half of one per cent. But this is more a matter of aid policy and procedure than a matter of accounting.

To answer your second question, these funds could be used for repayment only if the creditor nation was prepared to accept local currency in return.

Mr. MCLEAN: Could it not be converted?

Mr. MORAN: No. This is not going to help the foreign exchange position of the country concerned. They might as well pay dollars, if the rupees are to be convertible.

Mr. RYAN: From your experience, Mr. Moran do you find that these shortages or discrepancies are caused by the goods getting lost in some unexplained fashion in the countries to which they are shipped or are they caused by the value we place on the goods being entirely different from the values realized in the country to which the goods are shipped?

Mr. MORAN: No; it is purely an accounting problem. We never have quarrelled with the figures they have reported. The department of finance have reported the amounts received but they have not supported them by a certificate of the Auditor General. There is no discrepancy in our figures and theirs. We are in agreement on the value of the commodities we sent out there. However, as I say, all of the amounts have not so far been covered by an Auditor General's certificate. Let us say that the economic affairs division in India reports to us they have added \$15 million to the fund as a result of sales of copper and aluminum, and we say we agree. However, it might be two or three years before we get a certificate from the Auditor General certifying that \$15 million has been added.

Mr. VALADE: This means you have no proof the money has been received, technically; you must act under the assumption that the money has been received, but you have no accounting to back this up.

Mr. MORAN: It depends on whose evidence you want to accept.

I would hesitate to say in the presence of Mr. Henderson—

The CHAIRMAN: If I may interrupt, perhaps Mr. Henderson would like to make a reply.

Mr. CROUSE: Have we indicated unless we get the proper certificates we may have to curtail further aid?

Mr. MORAN: Oh, no.

Mr. CROUSE: It is not that important.

Mr. MORAN: No, not in my judgment. In any event, as I say, I have found on the whole that the counterpart fund procedure is causing a lot of work.

Mr. HENDERSON: Well, Mr. Chairman, I think Mr. Moran has given a very good explanation of the situation at the present time. And if I may say so, I think that credit is certainly due to his office for the fact that the 27 per cent performance last year is now up to 78 per cent in terms of certificates that he is able to get. May I just refer to the last paragraph of item 61? In 1960-61 and 1961-62 we were struggling with this. The point then was made that consideration might perhaps be given to an alternative method of accounting for the funds, in place of the present procedure which was then felt to be unsatisfactory. I now wonder if Mr. Moran would not agree that in the light of the performance percentage he is obtaining, we could not perhaps set aside the thought we expressed last year?

Mr. MORAN: It will always be a continuing problem. We will be diverting time and effort to getting these certificates.

This year we are sending out \$17 million in the commission. In the normal way our High Commissions in these countries will attempt to get auditors certificates.

On occasion when I am out in Asia, I speak to the finance ministers about getting auditors' certificates. I wonder, having regard to the amount of effort that goes into this procedure if it justifies the end result. The exact amount must be recorded somewhere. I am not suggesting that we let the moneys



flow and nobody ever account for them. But I wonder, when we could get these reports from the ministry of finance if, in addition, we need a certificate from the Auditor General?

The CHAIRMAN: Perhaps in view of the hour we might adjourn at this time. The next meeting will be held in room 371 at 11 o'clock on Monday morning. Before you leave, may I remind you to bring your documents. And may I have your approval to file the letter from the civil service commission which formed the basis of our resolution? May this be printed as an appendix?

Agreed.

(See Appendix)

## APPENDIX "A"

## CIVIL SERVICE COMMISSION OF CANADA

Ottawa 4

R. G. MacNeill, Chairman.

April 3, 1963.

The Chairman,  
Standing Committee on Public Accounts,  
House of Commons,  
Ottawa.

Attention: Mr. Antonio Plouffe, Chief,  
Committees and Private Legislation Branch.

Dear Sir,

In its second report to the House of Commons, the Standing Committee on Public Accounts which studied the report of the Auditor General for the fiscal year ending March 31, 1962, suggested that the "Civil Service Commission should immediately reconsider its position with respect to Section 74 of the Civil Service Act" pending consideration by the House of amending Section 65 of the Financial Administration Act "so as to authorize the Auditor General to recruit and manage his own staff". Parliament, as you know, was dissolved before the House of Commons could consider or take any action on the recommendations submitted by its Public Accounts Committee.

I want to state at the outset that I am in perfect accord with the evidence submitted by my colleagues, Miss Ruth E. Addison and Mr. Paul Pelletier, before the Public Accounts Committee shortly before dissolution. It should be remembered, of course, that the pressure of events at that time may have prevented members of the Committee from entering into as full a discussion of the problem as they might otherwise have wished to do, and most certainly prevented Miss Addison and Mr. Pelletier from bringing out all the various implications involved. Be that as it may, I think it is in everyone's best interests to place on record the precise nature of the problems involved and the Commission's position on this question.

The essential point to remember is probably that the new Civil Service Act was brought into force on April 1, 1962. Prior to the passing of the Act, exhaustive consideration was given to the clauses it contained by various committees and by the House itself. As you know, this new Civil Service Act applies to the Auditor General's staff as well as to government departments generally. Had Parliament seen fit to exclude completely the Auditor General's staff from the provisions of the Act, it would surely have done so at that time. There is, of course, no doubt about the fact that Parliament can at any time place the Auditor General's staff in an exempt position if it wishes so to do. I think this point was made abundantly clear during the last sessions of the Public Accounts Committee.

If the Commission were to follow at this time the Public Accounts Committee's recommendations, we would be defeating the purposes and intent of

the existing legislation, and we do not feel that it would be in the public interest so to do unless Parliament endorses those recommendations. Another point which is very relevant to the above consideration is that Section 74 of the Civil Service Act, when read in conjunction with all the other provisions of that Act, is designed to permit the exclusion of certain positions or groups of positions or certain employees or groups of employees, in whole or in part, from the provisions of the Act; but it is surely not designed to provide for the exclusion of whole departments.

Furthermore, Section 74 of the Civil Service Act provides that partial or total exclusion may be made by the Commission with the approval of the Governor-in-Council "in any case where the Commission decides that it is not practicable nor in the public interest to apply this Act or any provision thereof to any position or employee". The Commission cannot conscientiously come to the conclusion that it is in the public interest to exclude the Auditor General's staff from the provisions of the Act in view of the fact that the recruiting situation in this area is no more difficult, and in some cases less difficult, than in some other departments employing similar professional skill. It might, incidentally, be pointed out that although the Civil Service Commission is independent of the executive and reports direct to Parliament as does the Auditor General, the Commission has never considered, nor does it now, that its staff should be excluded from the provisions of the Civil Service Act.

Another factor in the reluctance of the Commission to use Section 74 as suggested is that since the staff of the Auditor General were appointed under the Civil Service Act, they enjoy a number of benefits under the Act that were part of their conditions of employment when they entered the Service. The Commission feels that these people should not be deprived of these benefits by Order-in-Council. This point should be borne in mind in considering amending Section 65 of the Financial Administration Act to exempt the Auditor General's staff from the provisions of the Civil Service Act. Specified provision would have to be included in such an amendment, otherwise the staff will be denied the benefits they now enjoy under the Civil Service Act.

An important point which was not discussed at meetings of the Public Accounts Committee and which may have escaped some of its members is the fact that if the Commission followed the suggestions made by the Committee, the independence of the Auditor General vis-à-vis the executive would be reduced, not increased. At the present time, the Auditor General's staff are appointed under the Civil Service Act by the Commission, which is independent of the executive. Should the Civil Service Commission exclude that staff from the provisions of the Act, recruitment, selection and appointment would have to be made, in the final analysis, by the government of the day. It seems to us that this would be the case unless Parliament by legislative action empowered the Auditor General himself to select and appoint independently of the executive.

I would like to assure the Committee that the Commission is most anxious to carry out fully Parliament's wishes and dictates. However, we feel it is important that the views expressed above should be placed formally on record in order that there will be no misunderstanding as to the Commission's position in interpreting the law as it now stands.

Yours sincerely,

R. G. MACNEILL,  
*Chairman.*





HOUSE OF COMMONS

First Session—Twenty-sixth Parliament

1963

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STANDING COMMITTEE

ON

# **PUBLIC ACCOUNTS**

*Chairman:* G. W. BALDWIN

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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 5

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Public Accounts, Volumes I, II and III (1962)

Report of the Auditor General to the House of Commons—1962

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MONDAY, NOVEMBER 25, 1963

FRIDAY, NOVEMBER 29, 1963

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WITNESS:

Mr. A. M. Henderson, Auditor General of Canada

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1963

## STANDING COMMITTEE ON PUBLIC ACCOUNTS

*Chairman:* Mr. G. W. Baldwin

*Vice-Chairman:* Mr. W. H. McMillan

and Messrs.

Basford,	Harkness,	Rock,
Beaulé,	Lessard ( <i>Saint-Henri</i> ),	Rondeau,
Berger,	Loiselle,	Ryan,
Cameron ( <i>High Park</i> ),	McLean,	Scott,
Cameron ( <i>Nanaimo-</i>	McNulty,	Slogan,
<i>Cowichan-The Islands</i> ),	Muir ( <i>Lisgar</i> ),	Smith,
Crouse,	Noble,	Southam,
Drouin,	Nowlan,	Stefanson,
Dubé,	O'Keefe,	Starr,
Eudes,	Olson,	Tardif,
Fane,	Pigeon,	Tucker,
Fisher,	Pilon,	Valade,
Forbes,	Regan,	Wahn,
Frenette,	Ricard,	Whelan,
Gendron,	Richard,	Woolliams—50.
Gray,	Rinfret,	
Hales,	Rochon,	

M. Slack,  
*Clerk of the Committee.*



## MINUTES OF PROCEEDINGS

MONDAY, November 25, 1963.

(6)

The Standing Committee on Public Accounts met this day at 11.10 o'clock a.m. The Chairman, Mr. G. W. Baldwin, presided.

*Members present:* Messrs. Baldwin, Fane, Forbes, Hales, Harkness, O'Keefe, Olson, Regan, Stefanson, Wahn. — (10).

An oral report of the Subcommittee on Agenda and Procedure was presented by the Chairman recommending that this sitting be adjourned because of the funeral this morning of the late President of the United States.

Mr. Regan moved, seconded by Mr. Olson, that the Report of the Subcommittee on Agenda and Procedure be adopted. *Motion carried.*

At 11.13 o'clock a.m., the Committee adjourned until 9.00 o'clock a.m., on Friday, November 29, 1963.

FRIDAY, November 29, 1963.

(7)

The Standing Committee on Public Accounts met this day at 9.15 o'clock a.m. The Chairman, Mr. G. W. Baldwin, presided.

*Members present:* Messrs. Baldwin, Fane, Harkness, Loiselle, McMillan, Muir (*Lisgar*), Pigeon, Regan, Richard, Rinfret, Smith, Southam, Stefanson, Starr, Tucker. — (15).

*In attendance:* Mr. A. M. Henderson, Auditor General of Canada; and Messrs. Long, Miller, Douglas, Smith and Laroche from the Auditor General's office.

The Committee resumed its consideration of the Auditor General's Report for the year ended March 31, 1962.

The Chairman called paragraphs 7-14 inclusive, Internal Financial Control, and Mr. Henderson was further questioned.

On paragraphs 15 to 60 inclusive and 62 to 68 inclusive, the Auditor General supplied supplementary information and was questioned thereon, assisted by Messrs. Long, Smith and Miller.

The Committee agreed that witnesses from the Department of Finance be heard with respect to paragraphs 62 to 68 inclusive.

The questioning of Mr. Henderson still continuing, at 10.55 o'clock a.m., the Committee adjourned until 11.00 o'clock a.m., on Monday, December 2, 1963.

M. Slack,  
*Clerk of the Committee*



## EVIDENCE

MONDAY, November 25, 1963.

The CHAIRMAN: Gentlemen, we have a quorum.

As you know, the meeting was called for 11 o'clock this morning. However, in view of the fact that at the present time the funeral of the late President of the United States is taking place and in view of the request made by the Prime Minister in regard to what might be done by those in Canada who are so greatly concerned, I feel that this committee meeting should be adjourned.

I took the liberty of calling by telephone this morning those members of the steering committee I could make contact with and a majority of them did concur in my suggestion.

I also took the liberty of telephoning Mr. Henderson, who was the only witness we would be calling this morning, to say that I felt the committee probably would not proceed, but if there was any change I would let him know.

In view of the circumstances I have set out I hope the members of this committee will concur in the course I have taken, and I would request a motion that this meeting be now adjourned.

Mr. REGAN: I so move, Mr. Chairman.

Mr. OLSON: I second the motion.

The CHAIRMAN: Is that agreeable?

Some hon. MEMBERS: Agreed.

Motion agreed to.

The CHAIRMAN: Thank you, gentlemen. The meeting will adjourn until Friday. I doubt very much whether we could secure a quorum for this afternoon as there are other committees meeting, and it is my hope that we will be able to make sufficient progress on Friday and in the ensuing meetings to compensate for this time.





## EVIDENCE

FRIDAY, November 29, 1963.

The CHAIRMAN: Gentlemen, I see we have a quorum. When we met a week ago we were dealing with items 14 to 17 as a group commencing on page 3. I do not know whether we had completed the questions on this group of paragraphs. Are there any questions in respect of them? Mr. Henderson had made an explanation and there had been several questions. Do you feel that this is completed?

Mr. MUIR (*Lisgar*): I would just like to ask a question of Mr. Henderson. How many crown corporations do you deal with on this audit?

Mr. A. M. HENDERSON (*Auditor General*): This appears on page 83 of my report. You will notice that I am the auditor of all of them except those that are listed in paragraph 154 on page 83; that is seven of them.

153. The Auditor General is the auditor of the following crown corporations whose accounts and financial statements were examined for their financial years terminating during, or coinciding with, the fiscal year ended March 31, 1962:

Corporation	Class	Reporting Minister
Atomic Energy of Canada Limited .	Agency	Veterans Affairs
Canadian Arsenals Limited . . . . .	Agency	Defence Production
Canadian Broadcasting Corporation	Proprietary	Secretary of State
Canadian Commercial Corporation .	Agency	Defence Production
Canadian National (West Indies) Steamships Limited . . . . .	Agency	Transport
Canadian Overseas Telecommuni- cation Corporation . . . . .	Proprietary	Transport
Canadian Patents and Development Limited . . . . .	Agency	Veterans Affairs
Cornwall International Bridge Com- pany Limited . . . . .	Proprietary	Transport
Crown Assets Disposal Corporation	Agency	Defence Production
Defence Construction (1951) Lim- ited . . . . .	Agency	Defence Production
Eldorado Aviation Limited . . . . .	Proprietary	Trade and Commerce
Eldorado Mining and Refining Lim- ited . . . . .	Proprietary	Trade and Commerce
Export Credits Insurance Corpora- tion . . . . .	Proprietary	Trade and Commerce
Farm Credit Corporation . . . . .	Proprietary	Agriculture
The National Battlefields Commis- sion . . . . .	Agency	Northern Affairs and National Resources
National Capital Commission . . . .	Agency	Public Works
National Harbours Board . . . . .	Agency	Transport
Northern Canada Power Commis- sion . . . . .	Agency	Northern Affairs and National Resources

Corporation or Instrumentality	Class	Reporting Minister
Northern Ontario Pipe Line Crown Corporation .....		Trade and Commerce
Northern Transportation Company Limited .....	Proprietary	Trade and Commerce
Park Steamship Company Limited .	Agency	Transport
Polymer Corporation Limited and subsidiary companies .....	Proprietary	Defence Production
The St. Lawrence Seaway Authority	Proprietary	Transport

154. The accounts of the following crown corporations and other public instrumentalities were not examined by the Auditor General during the year under review:

Corporation or Instrumentality	Class	Reporting Minister
Bank of Canada .....		Finance
Canadian National Railways .....	Proprietary	Transport
The Canadian National Railways Securities Trust .....	Proprietary	Transport
The Canadian Wheat Board .....		Agriculture
Central Mortgage and Housing Corporation .....	Proprietary	Public Works
Industrial Development Bank ....		Finance
Trans-Canada Air Lines .....	Proprietary	Transport

Mr. MUIR (*Lisgar*): Who does their auditing?

Mr. HENDERSON: Private firms are nominated by their directors or by parliament.

The CHAIRMAN: Are there any further questions on this group of paragraphs? If not, we can pass on. I think we could probably take paragraphs 15 to 18 together dealing with internal financial control.

Questions would be in order with respect to any of these. Possibly Mr. Henderson might like to make a comment.

Mr. HENDERSON: Mr. Chairman, paragraphs 15 to 18 stress the importance of the three basic requirements for an effective system of internal financial control, namely the need for accurate costs, adequate periodic financial statements and proper internal audit. Members may have questions on the information set out here. I might say that a number of the points that I have been stressing here have been the subject of parallel recommendations made subsequently by the royal commission on government organization, and that I propose to follow up on the implementation of those recommendations.

### *Internal Financial Control*

15. Effective internal financial control in the operations of a government department, crown corporation or other agency is a prime consideration for the auditor in determining the scope of his work. In last year's report I referred to the three basic requirements for an effective system of internal financial control in any organization, namely, accurate costs, adequate periodic financial statements and an appropriate internal audit.

You will recognize, under paragraph 16, that beginning with the revised estimates for 1962-63 the treasury board staff has been showing the approximate value of major services to be received from other departments. This I regard as a good start. However, I go on to point out that unless and until the actual



costs are included in the accounts of the responsible departments, we will not derive the full benefit because a department can scarcely be expected to be cost conscious to the fullest extent unless it is charged with costs for which it is in fact responsible and therefore has to pay out of its own appropriations. That is something which I think we are hoping will come out of the final implementation of the program budgeting outlined by Mr. Steele at our first meeting.

16. The need for accurate costs has now been partly met by the action of the Department of Finance in arranging for the estimating of the annual costs of certain major common services, by departments, and showing these costs in summary memorandum form at the beginning of the several departmental sections in the revised estimates for 1962-63. While showing the approximate value of major services to be received by a department from other departments in this way provides useful information, it has the disadvantage of relating the amounts only to the department as a whole instead of to individual appropriations relating to the work areas. I hope that the start made this year will lead to the provision for all significant cost factors in the individual appropriations and the inclusion of the actual costs in the accounts of the responsible departments, because the departments benefiting from the services provided cannot be expected to be conscious of costs, for which they are in fact responsible, unless they are charged with them and have to pay them out of their own appropriations. In my opinion this could be achieved without the introduction of any complex accounting procedures.

Likewise, in paragraph 17 I refer to the importance of periodic financial statements showing actual performance measured either against budget projections based on parliamentary appropriations and/or actual performance in a comparable prior period. Again the Glassco commission has recommended that this be proceeded with, and again it is my understanding that as part of the program budgeting study now underway on a pilot basis this objective may be achieved.

17. Last year I referred at some length to the need for wider use of effective periodic financial statements for the study and control of cost by government departments, in which actual performance would be measured against either budget projections based on parliamentary appropriations or actual performance in a comparable prior period, or both. Current reporting practices were reviewed by the royal commission on government organization who recommended that "departments and agencies adopt modern management reporting techniques". As part of its comprehensive audit approach the audit office seeks to assist departments and agencies in developing periodic financial statements.

Mr. HARKNESS: What are the four departments in the study?

Mr. HENDERSON: The Department of Veterans Affairs, the Department of Agriculture, the Department of Transport and the Department of Northern Affairs and National Resources.

18. I pointed out last year that the external auditor is at all times vitally concerned with the competence and scope of the internal auditing work being carried on in an organization. It is still the case that while many of the larger departments and crown corporations maintain their own internal auditing staffs, a number have not taken steps along these lines even where the circumstances appear to justify it. On the other hand, some internal auditing units are overstaffed and tend to duplicate the work of other groups.

The solution to this problem, in my opinion, lies in making more effective use of the staffs engaged in internal auditing, coupled with a freer interchange of ideas on procedures, techniques and programming among the various departments, crown corporations and other agencies. Since internal auditing is essentially a management tool to ensure good performance, it should, as far as is practicable, be carried out under the direction of top management by staff experienced in the techniques and requirements of the particular organization if it is to be effective. Reference was made last year to the fact that the backlog of cost audits of expenditures incurred under contracts entered into by the Department of Defence Production had reached proportions which were of concern to the department and to the suppliers involved.

While this situation continued to exist at March 31, 1962, we note that efforts have since been made to reduce this backlog.

Mr. McMILLAN: Mr. Henderson, in paragraph 18 you speak about some of the internal audit staff being overstaffed. Would you elaborate on that?

Mr. HENDERSON: I think some are more numerous than is required in some departments while in others without being specific I think they should be setting up an establishment and applying better internal control than is presently the case. The Glassco commission suggested in their comments that perhaps there has not been all the communication there should be between departments on this subject, that the staffs might be changed around to more advantage. Among others they have certain suggestions in this connection: that there should be an interdepartmental committee studying internal auditing work and an exchange of views on its procedures. For example, the Department of National Defence has an able internal audit staff numbering between 80 and 90 people in the department. The Glassco commission points out that if they could meet with some of the internal staffs of other departments and with some of the crown corporations' staffs, that each might be able to benefit from the other's experience and it might lead to a better dispersal of these staffs.

The matter is of particular interest to me because the adequacy of the internal audit staff has an important bearing on the type of approach that I bring to my work. If it is strong, something on which I feel I can place reliance, correspondingly it can lessen the amount of work that I do. This is one of the basic approaches in internal auditing.

In a number of cases, as you may have noted throughout the report, I have recommended that certain departments give consideration to setting up some form of internal control like this, because they are best equipped to set it up, to supervise it and to derive the maximum benefit from it by having people who are thoroughly experienced on the work. The most notable example in this connection lies in the whole field of unemployment assistance in the Department of National Health and Welfare. They have adopted my suggestion and have taken steps to set up their own staff.

Mr. HARKNESS: Are there many departments that have no internal audits?

Mr. HENDERSON: Yes, there are quite a number. In some cases it is not justified; in other cases the work is done on a very skeleton basis. It depends on the type of work being carried out.

Mr. HARKNESS: In small departments I can see that there would be no great necessity, but in a department of any size I would think it would be essential.

Mr. HENDERSON: It is. However I think it is a good idea to review it along the lines I have mentioned so as to avoid the necessity of going out and hiring extra people. That is to say, we could avoid this perhaps if we made a better dispersal or use of the people we have on strength.

Mr. MUIR (*Lisgar*): In internal finance have you any reason to believe that the various departments in presenting their budgets to treasury board allow a certain percentage to compensate for any reduction that treasury board would impose on them?

Mr. HENDERSON: You are referring to "cushions" that might be inserted within estimates so that this request for funds does not fall too far if it is cut back? Well, I suppose this is what might be described as an old custom but not necessarily confined, may I add, to our own government departments and crown corporations. My general impression is that the estimates are very conscientiously prepared as the managements of the departments and the crown agencies see their responsibilities, and of course they are discussed in considerable detail with treasury board staff. They are not pre-audited in the sense that I for example look them over before treasury board examines them. They are the department's own estimate of what it will cost to carry out its responsibilities and functions as it sees those responsibilities.

Mr. HARKNESS: The essential thing there is that nearly every department wants to do more than the total amount of the budget when it is all added together will allow, and therefore in most cases they are cut down by treasury board to some extent.

Mr. HENDERSON: Yes, therefore it would seem only prudent on their part, I suppose, to set them high enough so that they can afford a cut-back.

Mr. HARKNESS: I do not think that it is a matter of deliberately setting it up higher than they think they need. The point is that they always want to do more things than the available money allows them to.

Mr. HENDERSON: Yes, I think that is quite true.

The CHAIRMAN: Are there any further questions?

Mr. McMILLAN: I was wondering if these internal auditing staffs do a physical audit?

Mr. HENDERSON: In terms of examining the assets? Up to a point, yes. I think it can be said that they play quite an active part. I am thinking now of internal auditing staffs such as the one in the Department of National Defence. They play quite a large part in satisfying themselves, for example, on stores inventories. May I ask Mr. Millar if he would care to say a word about this because he is in charge of my national defence work.

Mr. B. A. MILLAR (*Supervisor, Auditor General's Office*): Speaking of physical audit, the auditors examine cash. They also make test examinations of stocks and of stores, equipment and machinery and things of that kind. In other words, they make this part of their physical examination.

Mr. McMILLAN: The reason I asked that was that some years ago in the Department of National Defence, before the days of Mr. Harkness, they were still buying in spite of the fact that this department had lots of goods on hand.

Mr. HENDERSON: They could certainly bring this to the attention of top management and point out the size of the stock and particularly underscore the obsolescence of any stocks. That is what I would expect the internal auditor to bring forth in his reports to management.

Mr. McMILLAN: I was wondering how that extra stock would come about. There was an uproar about extra stocks of underwear at one time.

Mr. HENDERSON: Yes, of course in an accumulation of any large inventories of this type you will find that with changing fashions and that sort of thing stocks often get distorted considerably. You might want to speak about this to the deputy minister of national defence should you decide to call him as a witness.



The CHAIRMAN: There are matters coming up later which might possibly involve asking someone from the department to come for a discussion with us, and we might bear that in mind.

May we pass on? We are now on item 19

*The Public Accounts*

19. I expressed the view in my reports both last year and in 1960 that as the public accounts constitutes in effect Canada's annual financial report to its shareholders—the general public—it should conform to the highest standards of financial reporting in the country and be presented in a clear and concise manner without being encumbered with unnecessary detail.

Although attention was given to this problem by the public accounts committee in its second report, 1961, I hope that further consideration will be given towards summarizing or otherwise reducing a number of the detailed listings presently included in volume II so as to present more significant and relevant information to parliament and the public. Examples of additional important information which I believe should be disclosed in the public accounts are to be found in paragraph 93 suggesting that explanatory statements be given of revenue remissions, in paragraph 140 suggesting a more informative disclosure of all unpaid accounts receivable due to the Receiver General, and in paragraph 189 suggesting the inclusion of financial statements of departmental operating activities.

Mr. HENDERSON: This relates to the public accounts, with which you are familiar. Here again I am expressing the hope that further consideration can be given towards summarizing or otherwise reducing the amount of detail presently included in volume II so as to present more significant and relevant information to parliament and the public. It may be of interest to you to know that the suggestion I made under this heading—and I also make it in paragraph 93; that is, that an explanatory statement be given of revenue remissions—has been in fact taken into account by the Department of National Revenue in the 1963 public accounts which, of course, are not yet tabled. I am pleased to be able to tell you this now.

However, nothing has been done yet regarding the showing of more information about unpaid accounts receivable or the inclusion of financial statements of departmental trading activities, and I am continuing to press away at these things in the hope that these suggestions might also be adopted.

The CHAIRMAN: Am I correct in asking whether this was the subject of consideration by a subcommittee of a previous public accounts committee?

Mr. HENDERSON: Yes. The public accounts of 1961 were the subject of study by a subcommittee of this main committee. Mr. Herbert Smith was the chairman of the subcommittee at that time, and he might like to comment on this.

Mr. SMITH: Most of the work of the subcommittee at that time, and the recommendations, really were based on a physical change in the shape of the document itself in order to make it somewhat less cumbersome and more easily usable as a document. We went into the matter of certain technical changes which were recommended by the Auditor General. There were certain further matters which were to be resolved between the treasury board and the Auditor General in relation to those changes, and we did not go into those in great detail. The work we did on both the public accounts and the estimates in 1961 largely, as I say, was a matter of making a better presentation of the information already required.

Mr. HENDERSON: I think that is a fair and correct statement. We did have some very good exchanges and we explored a lot of the aspects of this matter at that time.

Mr. SMITH: The subcommittee had 10, 15 or 20 meetings with the officials.

Mr. MUIR (*Lisgar*): What do you do about the accounts receivable due the receiver general from one fiscal year to another? How long are these carried over?

Mr. HENDERSON: If you would care to jump forward at this point, we might dispose of paragraph 140.

140. *Accounts receivable*. As explained in the quotation in the preceding paragraph, taxes and other revenues receivable are not recorded as assets in the statement of assets and liabilities.

Information regarding the total accounts receivable of each department at the year-end, in comparison with the corresponding totals at the close of the preceding year, is given in the departmental sections of Volume II of the public accounts (with the exception of the taxation division of the Department of National Revenue). There is, however, no one place in the public accounts where information regarding the departmental totals and the substantial over-all total of accounts receivable is available. It would be informative to parliament were an appendix giving this information included in the public accounts in future.

It has not been the practice over the years to include in the public accounts any information regarding amounts receivable by the taxation division of the Department of National Revenue, but it seems desirable that such information be made available to parliament.

The following summary of accounts receivable includes the totals given in the departmental sections of the public accounts at March 31, 1962, together with totals of balances receivable as at February 28, 1962 by the taxation division, as provided by that division:

Department	Current year	Previous Years		Total
		Collectable	Un-collectable	
Agriculture.....	\$ 715,620	\$ 795,611	\$ 51,466	\$ 1,562,697
Citizenship and Immigration.....	28,256	323,633	312,451	664,340
Defence Production.....	4,187	13,664	259,329	277,180
Justice.....	150,627	2,432	30	153,089
National Defence.....	4,565,080	965,958	185,077	5,716,115
National Health and Welfare.....	904,453	274,816	169,825	1,349,094
National Research Council.....	101,713	14,305	150	116,168
National Revenue—				
Customs and Excise Division.....	4,856,019*		2,304,292*	7,160,311
Taxation Division.....	187,320,412*		15,825,226*	203,145,638
Northern Affairs and National Resources.....	99,187	14,114	18,617	131,918
Public Works.....	1,139,578	262,103	44,753	1,446,434
Royal Canadian Mounted Police.....	261,463	4,317	23,694	289,474
Trade and Commerce.....	114,929	8,936	7,054	130,919
Transport.....	3,473,178	2,959,651	7,309	6,440,138
Veterans Affairs.....	3,359,409	2,571,060	821,019	6,751,488
Other departments.....	140,955	59,963	50,920	251,838
	<u>\$207,235,066</u>	<u>\$ 8,270,563</u>	<u>\$ 20,081,212</u>	<u>\$235,586,841</u>

\* These totals relate to both current and previous years.

The accounts receivable totals shown in the above table were after writing off the following balances during the year under review:

Uncollectable debts of \$1,000 or less deleted from the accounts under the authority of section 23 of the Financial Administration Act.....	\$ 809,991
(Agriculture, \$17,348; Citizenship and Immigration, \$62,804; National Defence, \$20,807; Customs and Excise Division, \$34,943; Taxation Division, \$629,107; Transport, \$6,079; Veterans Affairs, \$31,205; and other departments, \$7,698)	
Uncollectable debts in excess of \$1,000 deleted from the accounts under the authority of Vote 710, Appropriation Act No. 4, 1962..	3,703,795
(Agriculture, \$3,787; Citizenship and Immigration, \$97,226; Defence Production, \$8,282; Finance, \$116,747; National Defence, \$116,903; Taxation Division, \$3,299,327; Northern Affairs and National Resources, \$16,057; Transport, \$21,612; and Veterans Affairs, \$23,854)	
	<hr/> \$ 4,513,786

It will be appreciated that whether accounts receivable are kept in memorandum form or recorded as an asset in the statement of assets and liabilities, they are nonetheless debts due to the crown, and their accurate recording and ultimate collection are prime responsibilities of the departments concerned.

While we have found that most of the departments having extensive accounts receivable keep their records accurately and efficiently, this frequently does not apply in the case of departments where accounts receivable as such are not an important factor. We believe this situation to be largely due to the failure of these departments to maintain controlling accounts and to provide for an effective internal verification of the accounts by officers other than those responsible for keeping the accounts. Such weaknesses in internal control should be remedied in order to remove the possibility that now exists of accounts being tampered with and collections misappropriated.

In this paragraph, you will see for the first time, a list of the accounts receivable of all of the government departments including the taxation division. Allowing for the inclusion of the taxation division figures as of February 28, you will see the total is over \$235 million. An estimate is made as to what is uncollectable in respect of prior years. It is explained here that because the accounts of the government are kept on a cash basis, these accounts receivable principally are in the form of memorandum accounts. That is to say, they do not form a part of the books of original entry in the way they do in commercial practice, that is controlled by control accounts from the books of original entry. At the end of this paragraph on page 76 I have made a comment that this is something which I hope will be remedied in due course because where memorandum accounts are kept, the area for misappropriation is enlarged. I am hopeful the committee might see fit to support this proposition.

Mr. MUIR (*Lisgar*): You suggested here they should have a verification of the accounts by officers other than those responsible for keeping the accounts.

Mr. HENDERSON: That is one of the principal point. As they are memorandum accounts I would like to see a stronger check applied to them, because experience has shown there memorandum accounts can be lost or mislaid.

Mr. MUIR (*Lisgar*): Would you care to explain the term memorandum accounts?

Mr. HENDERSON: Well, in the ordinary course where accounts are kept on an accrual basis, the money which is owed to the organization at any one time is of course, an asset and is reflected on the balance sheet, and when the



money is paid it is credited to that account. As these are part of the original books of account, there is a control at all times on the amount of the unpaid balance. Where they are kept as memorandum accounts, they do not form a part of the books of original entry; they are essentially memorandum accounts, and you have to make certain every time a charge goes out that you do not forget to put it in that memorandum record, and when a payment comes in to see that it is credited to that record. You do not have that important feature of independent control or cross-check. There is nothing wrong with keeping memorandum accounts, so long as the internal machinery surrounding it possesses the cross check features such as the ones we have mentioned. I thought this is something which should be brought out here, and I am hoping that in due course this situation will be remedied.

Mr. SOUTHAM: This total of \$235,586,841 is quite a formidable amount. How long has this been accumulating?

Mr. HENDERSON: If you look at the three lefthand columns you will see that \$207 million has originated in the calendar year ending March 31, 1962, this year which you are studying now. From previous years, \$8 million is considered to be collectable, and \$20 million is considered to be uncollectable. Regarding the inclusion of the customs and excise division and the taxation division figure you will see there is a footnote to the effect that these totals relate to both current and previous years.

Moreover, in the case of the taxation division, the figure is as at February 28 rather than March 31, that being a more convenient figure for them to furnish. This is the first time this information has been set up in this manner.

Mr. MUIR (*Lisgar*): Have you given any thought to establishing a policy in respect of the time at which you would write these off as uncollectable?

Mr. HENDERSON: Perhaps Mr. Long might speak on that point.

Mr. G. R. LONG (*Supervisor, Auditor General's Office*): I am sorry I do not have a copy of the Financial Administration Act here, but it does deal with the period after which accounts may be written off. There are three levels at which they may be written off. I believe that under \$500 they may be written off by the department itself; then there is a level at which they are written off, I believe, with treasury board approval, and a further level where parliamentary approval is required.

Mr. MUIR (*Lisgar*): I would like to apologize if I am asking questions which have been asked previously, but I am a new member of this committee.

Mr. HENDERSON: There has been no discussion on this point.

Mr. MUIR (*Lisgar*): I think this is a good point. So far as the government business is concerned, we are the biggest business in Canada and I like to interpret the carrying out of our business in the same way as that of an efficient big business in private enterprise. They approach it more or less on an engineering and administrative principle of being efficient. I think to some extent these are the principles we can apply to public or government business.

Mr. HENDERSON: I agree with that.

The CHAIRMAN: Are there any further questions on either paragraph 19 or paragraph 140 to which reference has been made?

Mr. MUIR (*Lisgar*): I have a final question on this. What suggestions do you have, Mr. Henderson, for remedying this?

Mr. HENDERSON: Well, at the present time I would express the hope that this committee would agree with the points or recommendations I made here. I would then propose to continue my discussions of this with the Comptroller of the Treasury, who is fully aware of the points which I mention, with a view

to seeing some remedial action taken. I would do that and report back to this committee in due course, if such a course of action commends itself to you.

Mr. SMITH: Would there be any advantage in having the Comptroller of the Treasury submit a paper to us containing his views in respect of this particular section?

Mr. HENDERSON: That is for you to decide.

Mr. SMITH: I was asking the Chairman. Sometimes this is useful. The committee can perform a useful function in resolving areas of disagreement or agreement between the departments. It might be useful for this committee to have the views of the Comptroller of the Treasury.

The CHAIRMAN: We could give some consideration to that. I do not know whether or not we will conclude this particular report this year. However, we might have Mr. Balls appear before us in connection with this and other matters. I am certainly much obliged for your suggestion.

May we pass on to paragraph 20.

#### *Form of the Estimates*

20. I continue to hold the view that expenditures of public funds at the level at which they exist today are of such importance to the Canadian economy that it is essential that the estimates be presented to parliament in the simplest and clearest manner possible. It seems to me essential to have what might be described as a maximum of information, well set out, having to do with the proposed spending. In my 1960 report I recommended that consideration be given to the form of estimates presentation with a view to providing more meaningful information, and since the four examples I gave at that time are still pertinent I now repeat them:

- (a) comparing the amounts estimated for the ensuing year directly with the anticipated actual expenditure for the current year, as well as with the amounts that had been estimated for the current year;
- (b) giving the estimated amounts in three columns: estimated expenditure (gross); estimated revenue; and net requirements to be voted (thus giving parliament an opportunity to consider the sufficiency of receipts for services rendered in relation to the costs incurred);
- (c) including both operating and capital budgets of crown corporations, even where funds will be forthcoming in full from corporate resources (thus giving parliament an opportunity to consider broad policies associated with their operations); and
- (d) including appropriate explanations in all cases where expenditures proposed for the year involve commitments for future years.

It is of interest to note that the royal commission on government organization in its commentary on the estimates makes recommendations along these lines.

The public accounts committee in its fourth report, 1961, while indicating its approval of certain improvements proposed by the treasury board staff, recognized that there were other possible changes in the form of the estimates, some of them of a fundamental nature, and recommended that these be considered early in 1962. I hope that action will now be taken to improve the form of the estimates along the lines indicated.

It must always be recognized that the form of the annual estimates is important from the accounting point of view because it determines in

large measure the manner in which the subsequent accounting for expenditures is maintained and reported upon in the public accounts. This in turn is important to the Auditor General because of his responsibilities to parliament.

The CHAIRMAN: This is the subject of a subcommittee discussion, and this matter has been given quite a lot of thought. I was able to be present at the first meeting. I understand a subsequent meeting has been held at which some progress was made. Possibly we might pass this paragraph until we have the report of the subcommittee. I see that Mr. Stefanson and Mr. Harkness who are members of this subcommittee are present. I understand you had another meeting and that considerable progress has been made, Mr. Stefanson?

Mr. STEFANSON: Yes.

The CHAIRMAN: Paragraph 21.

### *Recruitment of Audit Office Staff*

21. As the Financial Administration Act directs that the staff necessary to enable the Auditor General to perform his duties is to be appointed under the Civil Service Act, new employees for his office are recruited by the civil service commission under its regulations and procedures. For many years now the recruiting efforts of the commission have not been successful in bringing the working staff up to the establishment authorized for the office, the working staff of 150 on October 31 last being 29 employees short of the 1962-63 authorization. Moreover, the action of the treasury board this year in freezing departmental staffs on July 11 has had the further unfortunate effect of eliminating any possibility of improvement in the staff situation. Although certain branches of the government service have been granted relief in varying degrees from this restriction, my request to the treasury board that some relief be granted to the audit office was refused.

We can write this off for the time being. This matter has been settled satisfactorily through agreement reached between Mr. MacNeill and Mr. Henderson. We are all hopeful that this will prove satisfactory to everyone concerned.

This brings us now to paragraph 24 which deals with summary of expenditure and revenue.

### SUMMARY OF EXPENDITURE AND REVENUE

24. The statement of expenditure and revenue for the year ended March 31, 1962 prepared by the Department of Finance for inclusion in the public accounts and certified by the Auditor General as required by section 64 of the Financial Administration Act, is reproduced as Appendix 1 to this report. Expenditure for the year amount to \$6,521 million and revenue to \$5,730 million, resulting in a deficit of \$791 million. By comparison, there were deficits of \$340 million in the preceding year and \$413 million in 1959-60.

There is an appendix 1, is there not, to your report which sets that out?

Mr. HENDERSON: That is right, Mr. Chairman. These paragraphs should be taken as a group, I think, from paragraph 24 on page 8 right through to paragraph 45 on page 12.

These paragraphs summarize expenditure and revenue for the year ended March 31, 1962, and paragraph by paragraph they compare the size of expenditure with like expenditures in previous years. You will note this is done by



departments, with appropriate explanations given with respect to practically all of the departments covering the major items and accounting for the increase in expenditure. We shall be pleased to answer any questions that we can with respect to any of these particular paragraphs; but if I may I would like first to direct your attention to the tabulation in paragraph 28 on page nine. There are 17 departments shown there, and they are the major spending departments.

28. The following table summarizes the expenditure, by departments, for the fiscal year 1961-62, in comparison with the corresponding amounts for the two previous years:

Department	1959-60	1960-61	1961-62
Agriculture.....	\$ 227,420,000	\$ 264,915,000	\$ 286,684,000
Canadian Broadcasting Corpora- tion.....	63,946,000	66,766,000	78,161,000
Citizenship and Immigration....	54,917,000	61,049,000	65,016,000
External Affairs.....	97,221,000	103,023,000	95,571,000
Finance.....	1,420,155,000	1,460,027,000	1,511,953,000
Labour.....	102,885,000	121,336,000	168,885,000
Mines and Technical Surveys....	54,432,000	59,120,000	67,599,000
National Defence.....	1,514,904,000	1,517,531,000	1,626,104,000
National Health and Welfare....	818,371,000	887,147,000	1,040,276,000
National Revenue.....	68,696,000	73,261,000	75,330,000
Northern Affairs and National Resources.....	74,346,000	74,296,000	82,342,000
Post Office.....	165,792,000	178,372,000	185,003,000
Public Works.....	217,876,000	200,892,000	188,813,000
Royal Canadian Mounted Police..	52,444,000	56,023,000	60,497,000
Trade and Commerce.....	17,961,000	21,764,000	39,472,000
Transport.....	296,447,000	336,447,000	410,391,000
Veterans Affairs.....	288,305,000	292,298,000	333,223,000
Other departments.....	166,743,000	183,834,000	205,326,000
	\$5,702,861,000	\$5,958,101,000	\$6,520,646,000

Comments are made in the following paragraphs regarding the significant increases or decreases in individual appropriations or groups of appropriations which mainly accounted for the variations between the departmental expenditure totals listed above for 1960-61 and 1961-62.

You will note how our expenditures have been increasing, that in 1961 the figure was \$256 million over 1960; in 1962 the total figure was \$562 million over 1961. If you look down the columns of figures you will find that only in the case of two departments out of the 17 has there in fact been a decrease in 1962 over 1961 and in 1961 over 1960. As to administrative costs, we know these are going up, and this is reflected in the comments that follow for each of the departments.

If I might add one more comment, sir, I was especially interested in the discussion we had last Friday about the size of the departmental staffs as shown by appendix 6 of this report which you discussed at some length. It is also why, in my opinion, the findings of a royal commission such as the royal commission on government organization are so important to study and find out what savings would in fact be achieved in the areas under study.

Mr. STARR: Mr. Henderson, is it not true that in some departments this increase does not necessarily reflect a rise in the administration costs?

Mr. HENDERSON: I did not wish to imply this was the sole cause of the increases. I intended to say that administration cost increases as such occur in most of the explanations we give in these paragraphs.

Mr. STARR: As far as the Department of Labour is concerned, the reason for the increase shown there is that the policies of the government dealing with certain programs such as the municipal winter works program and the

technical vocational school program showed a tremendous increase in those years. From now on you will see the Department of Labour showing decreases because those programs will terminate.

Mr. HENDERSON: Paragraph 34 on page 10 summarizes the increases in the Department of Labour. Would you please turn to that page.

The CHAIRMAN: Paragraphs 29 to 45 include references to individual departments.

Mr. HENDERSON: The remarks I made were confined to the table under paragraph 28.

Mr. McMILLAN: What authority has the governor in council to move expenditure from one project to another? For instance, suppose a certain sum was voted for improvement to the harbour of Montreal as well as a sum to the harbour in Kingston, one was overestimated, the other was underestimated. Could they move the money from one case to another?

Mr. D. A. SMITH (*Supervisor, Auditor General's Office*): With regard to improvements to harbours, the vote under both texts of the Department of Public Works provide that transfers may be made between projects detailed in the estimates with the authority of treasury board.

The CHAIRMAN: If I might ask a question, Mr. Henderson, in paragraph 27 you deal with lapsed balances. As I understand it, a balance lapse is 30 days after the end of the fiscal year, but in paragraph 27 you indicate those departments where the balances which lapsed were more than 10 per cent. Do you have any idea how this compares with previous years?

Mr. HENDERSON: Lapses averaged six per cent over the preceding year and 8.8 per cent at the close of 1959-60. Over all it was 6.1 per cent in the year you are looking at. We are merely listing at the top of page nine those departments where the individual lapses were in excess of 10 per cent to show the major ones. Over all the lapsing was 6.1 per cent in 1962 versus six per cent the previous year and 8.8 per cent at the end of 1959-60.

The CHAIRMAN: Are there any questions or discussion with regard to these particular paragraphs 24 to 45 inclusive?

Mr. HENDERSON: We could now take paragraphs 45 to 54 on pages 12 to 15. These paragraphs summarize revenue by the principal sources for the same fiscal year, 1961-62, compared with the two previous years dealing with excise taxes, excise duties, return on investments and, net postal revenue. Perhaps the most significant points here show that whereas the total revenue increased to \$130 million in 1961 over 1960, it only increased \$112 million in 1962 over 1961.

Reference here to the St. Lawrence Seaway appears on page 14. In the last paragraph you will notice how the return from various investments comes in there, and there is reference to the fact that nothing was received from the St. Lawrence Seaway in this particular year. In 1961 I had commented upon the fact that \$9,500,000 had been treated as monies or revenue here out of further borrowings made with the authority from the Minister of Finance for the purpose of paying the interest.

The CHAIRMAN: Are there any comments on these items?

Mr. MUIR (*Lisgar*): There was no increase in the personal income tax during the years that we show here, 1959-60?

Mr. HENDERSON: I do not think so.

Mr. MUIR (*Lisgar*): That is just a reflection of the rise?

Mr. STEFANSON: In the excise column, paragraph 49, the large reduction for automobiles, was that when this tax was abolished?

49. *Excise taxes.* The following is a summary of the excise taxes, other than sales taxes, collected during the year ended March 31, 1962, with comparable amounts for the two previous years:

Excise Tax	1959-60	1960-61	1961-62
Cigarettes.....	\$ 163,608,000	\$ 172,197,000	\$ 185,176,000
Automobiles.....	64,281,000	59,627,000	25,270,000
Manufactured tobacco.....	19,292,000	18,697,000	19,599,000
Television sets and tubes.....	9,387,000	8,466,000	9,570,000
Toilet articles and preparations..	7,651,000	8,406,000	9,397,000
Phonographs, radios and tubes...	8,372,000	7,460,000	8,853,000
Jewellery, clocks, watches, china-ware, etc.....	5,609,000	5,943,000	5,577,000
Wines.....	3,027,000	3,224,000	3,350,000
Cigars.....	2,603,000	2,755,000	2,775,000
Sundry excise taxes.....	3,099,000	4,212,000	3,943,000
Refunds and drawbacks.....	-361,000	-329,000	-10,984,000
	<u>\$ 286,568,000</u>	<u>\$ 290,658,000</u>	<u>\$ 262,526,000</u>

The reduction of \$34 million or 58% in collections of excise tax on automobile sales resulted from the repeal of such tax effective June 21, 1961. The repeal of this tax, which was accompanied by remission of the tax on automobiles in the hands of dealers, was also responsible for the increase in refunds and drawbacks in 1961-62 compared with the preceding year.

Mr. HENDERSON: That is explained in the paragraph under the tabulation regarding the reduction of \$34 million.

Mr. McMILLAN: I wonder whether under the general comments in the Glassco report, where they say they can save so much money by applying more modern methods of running the government, this applies to staff or to bookkeeping?

Mr. HENDERSON: I think it is a combination of all these things. The findings of the Glassco commission are those of an experienced staff. I think we would all agree that these men possessed competence and ability. Their services were engaged to enquire into the organization of the government and to come up with suggestions as to ways and means whereby greater efficiency could be achieved and public money perhaps saved.

The findings of the commissioners are the most interesting part of the report to me. It is, I think, a matter of opinion whether the savings that their chairman and others suggest might be achieved could in fact be realized. On the other hand, most of us would agree that it is a good thing to have internal practices in an organization the size of ours overhauled, and I am hoping that the government can come to grips with this entire proposition; that in fact some savings of public money may be achieved. I do not think there is any question that savings are possible in a number of the areas—at least that is my personal view. I say this because I consider some of our practices are outdated and some of them are inefficient.

Mr. SMITH: One of the criticisms, Mr. Henderson, that one frequently hears from taxpayers, particularly of excise tax, is that the rules and the interpretation of the excise tax statutes are in a great muddle and that it is almost impossible to accurately and precisely calculate the tax that is payable under some of these excise taxes. Has that ever come to your attention, or has there ever been anything done towards simplification of the rules and their interpretation so that the returns for taxpayers will be simpler?



Mr. HENDERSON: Are you referring to the question of ministerial discretion?

Mr. SMITH: No, I am not referring to the question of ministerial discretion but to the rules that are drawn up on excise tax, as to what level is applied, for instance, to the 11 percent sales tax.

Mr. HENDERSON: We have referred to this subject. As a matter of fact it is contained in the report now before you. There are three notes calling for statutory sanction to be obtained, as the act requires, to some of the practices, rather than leaving it to a set of regulations. You may recall that in 1961 the question of the sales tax came up and this committee recommended that action be taken to give it the effect of statutory approval. In our follow-up report to this committee I quoted a letter from the deputy minister in which he stated he would advise me when that was possible. There has been no action here yet. But, as I repeat, there are three paragraphs in the report referring to practices along the lines you describe where we continue to hold the opinion that that statutory approval should be obtained.

The CHAIRMAN: We hope that the deputy minister of that department will be available when this particular subject matter comes up in the Auditor General's report. We passed this in the follow-up report because we assumed we would come to this in any event.

Mr. MUIR (*Lisgar*): Following up a question by Mr. McMillan on the report of the royal commission on government organization, if I remember correctly there was a suggestion in the Glassco report that a million dollars could be saved on the maintenance of public buildings in Ottawa through tender rather than the way it is done now. Would you agree that perhaps this is not practicable; that there are probably quite a number of people who are now employed for the purposes of maintaining the buildings who would be unemployed if this were done?

Mr. HENDERSON: I think that observation was a perfectly proper one for the royal commission in question to make, but I would prefer not to comment on it, because it is the subject of study by the government as to its feasibility and whether, in fact, their policies and procedures are such that they feel they could achieve a saving of that magnitude from that source.

In considering the findings and recommendations of a royal commission of this type, it is my view that the government, like the management of any large corporation which engages management consultants, must have the right to study and bring its full judgment to bear on the feasibility of the propositions which have been laid out for study. They engaged the services of these men and will want to give due consideration to the findings and recommendations of these men. It is my understanding that this is what they are doing.

Mr. MUIR (*Lisgar*): I do not think there is any doubt about the feasibility, except that the government is responsible for these people in any case, and if they cannot pay it out in one way, they can do it in another.

Mr. HENDERSON: That is the fine balance of policy versus the possibilities of savings as I see it. Those are the first considerations, I would assume, they would take into consideration. The responsibility of implementation is theirs.

Mr. McMILLAN: Does the Auditor General look into the matter of seeing whether the lowest tender always is accepted?

Mr. HENDERSON: Yes, sir. Where we see cases we invariably ask questions.

Mr. McMILLAN: In the event the lowest tender is not always accepted, do you report this?

Mr. HENDERSON: You might like to hear Mr. Smith on this again.

Mr. SMITH: I was unable to hear the question.

Mr. McMILLAN: I was asking whether the Auditor General went into the matter of whether or not the lowest tender always was accepted.

Mr. SMITH: The lowest tender is not always accepted on contracts.

Mr. McMILLAN: In such a case the reasons would be given and I assume the Auditor General was satisfied with the reasons?

Mr. SMITH: Oh, yes.

Mr. McMILLAN: And if he is not satisfied he would report. Is that right?

Mr. HENDERSON: Yes.

Mr. McMILLAN: To the committee?

Mr. HENDERSON: Yes.

The CHAIRMAN: I should say that later on we will be coming to a matter of a number of items on which there were identical tenders. There is a letter from the Minister of Justice dealing with this which opens up the subject.

Paragraph 55 and onward contain the comments by the Auditor General in respect of specific items he has felt warrant being brought to our attention. We will start with the first one which is paragraph 56.

*56. Questionable charge to Vote 611. This appropriation reads:*

Payments to western grain producers to be distributed on the following basis, namely, \$1 per cultivated acre up to a maximum of 200 acres per farm in accordance with regulations of the Governor in Council—\$42,000,000.

Although this wording provides only for payments to grain producers on the basis of cultivated acreage, related administrative costs incurred by the Canadian wheat board on behalf of the Department of Agriculture to a total of \$94,157 were charged to the appropriation. Reference to the inclusion of the board's administrative expenses as a charge to the similar 1960-61 appropriation was made in last year's report (paragraph 55).

Mr. HENDERSON: In my opinion the vote wording in a case of this kind should state specifically that the administrative costs are to be paid. Otherwise they should not be charged against the appropriation. I would hope you would agree with this and recommend accordingly. Here is a case where the Canadian wheat board has handled the payments under this item.

The CHAIRMAN: And in your opinion there should be a related item in respect of \$94,157 for administration costs.

Mr. HENDERSON: That is right.

Mr. FANE: Where would the \$94,157 come from if it was not added to the vote?

Mr. HENDERSON: Well, the Canadian wheat board might be left to foot the bill if it could not be absorbed anywhere else.

Mr. HARKNESS: The point in this is that the Canadian wheat board was merely acting as agent for the Department of Agriculture in distributing this money, because they were in a better position to do so than anybody else. If I recall the matter correctly, either in this particular year or in the year before when I was minister of agriculture, these costs of \$94,157 were the costs of issuing the cheques?

Mr. HENDERSON: Yes.

Mr. HARKNESS: In my opinion it was a charge which properly should have been made against this appropriation. In other words, the cost of paying out the \$1 per acre should, in my view, include the cost of mailing out the cheque, and so on.

Mr. HENDERSON: I do not dispute that.

Mr. HARKNESS: Your complaint is in respect of the wording of the appropriation rather than in the respect of what was done?

Mr. HENDERSON: That is right.

The CHAIRMAN: Mr. Fane, do you have the answer you wished?

Mr. FANE: Yes. I was wondering where the money would come if it was not collected out of the \$42 million. If it did not come from this item, naturally it would come out of the pockets of the farmers.

Mr. HENDERSON: They might have found some other place to put it; I do not know. I do not quarrel with where they put it; it is the fact that it is a questionable charge against the vote because the wording of the vote makes no provision for such expenses.

Mr. SOUTHAM: In the event that a similar situation were to arise in the future, what would be your suggestion in order to make it more workable, so far as your department is concerned?

Mr. HENDERSON: I would hope you would agree that if a vote does not contain the authority to accept the expenses, the expenses should not be charged there. In a situation like this, the solution would be, presumably, that the vote should carry the words "including related administrative costs". That is all.

Mr. SOUTHAM: That sounds like a reasonable solution to it.

Mr. FANE: I certainly agree with that, because being a farmer I do not believe that these costs should be taken out of the acreage money which the farmers receive for their grain.

Mr. REGAN: Mr. Henderson, on what basis was a decision made to have the Canadian wheat board distribute the money and incur these costs? Was this a cabinet decision? Had the distribution been carried out by the Department of Agriculture, the cost of distribution merely would have been part of the general overhead of that department, and this would not have arisen.

Mr. HARKNESS: The cost would have been several times as much and the length of time taken to make the distribution would have been several times as long. The only organization in existence which had the cheque producing machines, the names, and so on, was the Canadian wheat board. All this would have been duplicated had it been done in any other way and there would have been greater cost and a much longer period of time involved.

Mr. REGAN: In that event, certainly this was a logical course to follow. However, did the Department of Agriculture not have the power to pay the administrative costs out of its general revenue?

Mr. HARKNESS: From the beginning the intention was that the costs of administration would be paid out of this particular vote. There may have been an error in that the words "including the cost of administration" were not included in the wording of the vote; but the intention was that the cost of the operation, and not only the \$1 per acre, would come under this vote.

Mr. REGAN: It was decided at that time that the Canadian wheat board would handle the distribution?

Mr. HARKNESS: Yes. It was decided in advance.

Mr. SOUTHAM: I think this has been one of the most economical operations we have had. It worked out satisfactorily.

Mr. FANE: Mr. Chairman, there is no question about the payment of this money through the Canadian wheat board being the most economical and sensible way to have it done, because they have all the records, the permit books, and the names of everybody involved. All those things would have had to have been provided to some other department if this had been done by some other department.



The CHAIRMAN: Mr. Regan, you have the advantage of a number of persons who are experts in this field today.

Mr. REGAN: I see that.

The CHAIRMAN: Paragraph 57.

57. *Loss on transactions of the Agricultural Products Board.* In last year's report (paragraph 110) we pointed out that, included among current assets in the statement of assets and liabilities as at March 31, 1961 was a balance of \$4,861,000 representing the net loss sustained in the purchase of agricultural products by this board during the year then ended. We expressed the view at that time that a parliamentary appropriation should have been sought to authorize the recording of this loss as a charge to expenditure during the year.

Attention is now drawn to vote 684, Appropriation Act No. 4, 1962 which provided for the estimated amount required to recoup the agricultural products board account to cover the cumulative net operating loss recorded in the account to March 31, 1962. As no loss was anticipated during the year the vote was for \$4,861,000, and the charge to it was therefore with respect to the loss for 1960-61.

Mr. HENDERSON: This paragraph updates the 1961 paragraph and is put in here for the information of the committee. It shows how the matter in question was fixed up. You may not want to spend very much time on this. It is something I felt the house should know.

Paragraph No. 58 is the prairie farm emergency fund deficit.

58. *Prairie Farm Emergency Fund deficit.* The deficit in the prairie farm emergency fund during the past year totalled \$47,733,000, an increase of \$38,533,000 over the deficit of \$9,200,000 incurred in the preceding year and the largest since the inception of the fund in 1939.

The fund operates as a special account within the consolidated revenue fund to record transactions under the Prairie Farm Assistance Act, R.S., c.213. Under the act, a levy of 1 per cent is imposed on the purchase price of grain purchased by licensees under the Canada Grain Act and the moneys collected, which during the past year totalled \$6,644,000, are paid directly to the receiver general and credited to the account. Awards made in accordance with the provisions of the act are charged to the account and during the past year these totalled \$54,377,000.

Section 11 of the act, in providing for this special account, states in subsection (8) that:

If at any time the fund is insufficient to pay awards made under this act the Minister of Finance may, out of unappropriated moneys in the consolidated revenue fund, with the approval of the governor in council, make an advance to the fund of the amount required to meet the deficit.

Because of widespread crop failure on the prairies, it became clear that the fund would be insufficient to pay the awards payable under the act during 1961-62. Accordingly, on the submission of the Minister of Finance, the Governor in Council by P.C. 1961-1607 of November 9, 1961 granted authority to the minister to make advances to the fund out of unappropriated moneys in the consolidated revenue fund sufficient to pay awards made pursuant to the act. The amount of such advances was \$47,733,000, which was treated as a deficit and charged directly to expenditure.

The Department of Finance has always followed this practice without seeking parliamentary approval for such action. On the other hand, the audit office has continuously taken the view that parliament should be given an opportunity to review the results of the fund's operations and to authorize the writing off of any advances made under the act to cover operating deficits.

This view was supported by the public accounts committee in its fifth report, 1961 (paragraph 27) when, after referring to the fact that the Agricultural Stabilization Act provides for the inclusion of an item in the estimates to cover the net operating loss of the agricultural stabilization board in any year, it recommended:

that consideration be given to amending the Prairie Farm Assistance Act to provide similarly for the inclusion of an item in the estimates to cover any deficit that might be anticipated in the operation of the prairie farm emergency fund.

The audit office was recently furnished with a copy of an opinion, dated April 5, 1962, rendered by the Department of Justice at the request of the Department of Finance, to the effect that the Minister of Finance has authority to pay out of the consolidated revenue fund all payments required under the act and that no further authority from parliament is necessary. The Department of Finance regards this opinion as supporting the practice that has been followed of charging the annual deficits in the prairie farm emergency fund directly to expenditure without an item being included or any reference being made thereto in the estimates.

The audit office has never questioned the legal authority of the Minister of Finance to pay out of the consolidated revenue fund all awards that are required to be made under the act. It is our view, however, that where the operations of a fund of this type whether it operates independently or as a special account on the government's books as part of the consolidated revenue fund, result in a deficit, this should be placed before parliament through the medium of the estimates, with the amount of the deficit being charged to expenditure only after parliament's approval.

With the exception of the four fiscal years ended March 31, 1952, 1953, 1954 and 1957, awards have exceeded levies collected in each year. In the aggregate awards of \$314,073,000 have been paid out by the fund from its inception in 1939 to March 31, 1962, while \$129,970,000 was obtained by the levy, leaving \$184,103,000 to be paid out of unappropriated moneys in the consolidated revenue fund.

Thus, while payments under the act have been made with due legal authority, the failure to include items in the estimates laid annually before parliament for approval means that there has been no provision for regular parliamentary review of the operations of the fund, or approval of substantial expenditure charges—\$47,733,000 in 1961-62.

As in previous years this deficit, which amounted to over \$47 million in 1961, was charged directly to expenditure, and as you will have observed I have continuously taken the view that an estimate of this deficit should have been included in the estimates to cover any deficit which might be anticipated.

Mr. Chairman, we did discuss this in the follow-up report, and I advised the committee at that time that early in the present year the Department of Agriculture did give consideration to proposing an amendment to the Prairie Farm Assistance Act whereby provisions in the estimates would be required in order to recoup deficits incurred in this fund. In a letter to the secretary of

the treasury board, the deputy minister stated the purpose of my recommendation for parliamentary review is appreciated and provision for this will be included when other proposals for amendments to the act are presented for ministerial consideration. I would like to express the hope that the committee might recommend that pending the amendment of the act, an item be included in the estimates to cover each year's deficit. That would be my point under this item.

Mr. MUIR (*Lisgar*): I think it would be very difficult to attempt to estimate what the loss would be, because the one per cent, of course, goes toward paying losses in cases of drought in the prairie provinces. It varies. The only thing you could use as a yardstick would be the losses there had been, averaged out possibly over the past ten years, or something like that.

Mr. HENDERSON: But you do agree with the point I am making.

Mr. MUIR (*Lisgar*): Except that it would be very difficult to do.

Mr. HENDERSON: They might find some way to get around that difficulty at the time they put the estimates in. They know pretty well how it is likely to come out.

Mr. MUIR (*Lisgar*): You mean by having an average?

Mr. HENDERSON: Yes.

The CHAIRMAN: You feel that the recommendation being considered by the Department of Agriculture will take care of this and that it is just a matter of this interim period?

Mr. HENDERSON: I have been pleased to see the Department of Agriculture so advise the treasury board, but I have not heard whether or not the treasury board accepts this advice. It would help if you would agree with me that this should be included in the estimates, bearing in mind what Mr. Muir has said about the estimation which will probably have to be made ahead of time.

The CHAIRMAN: Mr. Bryce could deal with this when he is here.

Mr. HARKNESS: I cannot see the advantage of putting this in the estimates. The act lays down that any deficit will be made up. Except for this big loss which was mentioned because of the poor crop in a particular year, the experience has been that the amount collected has been, for many years, close to 50 per cent of the amount paid out. I do not see any great advantage in putting in the estimates an average of what has been paid out of previous years, because in some years very little is paid out and in other years a very large amount is paid out. I do not see really what it accomplishes.

Mr. HENDERSON: Do you not think that a disbursement which results in a loss of \$47 million should be brought forward for the consideration of parliament instead of being written off by the executive?

Mr. HARKNESS: It is brought forward when the estimates of the Department of Agriculture are up for discussion. The operations of the P.F.A.A. always are reviewed.

Mr. HENDERSON: Well, it is true that opportunity exists, but it has been the view of the audit office right along that where the operation of a fund of this type, whether operated independently or in a special account as part of the consolidated revenue fund, results in a deficit, the result of the operation should be brought before parliament through the medium of the estimates. You called for it in this committee in respect of the agricultural stabilization fund, and I find it difficult to determine the difference between the agricultural stabilization fund and this one. They both wind up in losses. In the case of the agricultural stabilization fund it is laid before parliament.



Mr. SOUTHAM: In the case of the stabilization fund you can estimate possibly more accurately, because you are not contending with the indefinite factor of climatic conditions. So far as the P.F.A.A. is concerned, this is based on how we are affected by the climate; this is a very intangible thing. For eight or nine years we may not have a call on the fund. Our experience since 1939 is that the one per cent liquidated about half the amount under this. On the other hand, we went along in our area for eight or nine years without a drought, and then in 1961 there was an unprecedented drought which developed a deficit of \$47,733,000. If you start to appropriate so much each year, it should be accounted for in the estimates. Is this what you are suggesting?

Mr. HENDERSON: The only thing the act provides on this subject is quoted at the bottom of page 16:

If at any time the fund is insufficient to pay awards made under this act, the Minister of Finance may, out of unappropriated moneys in the consolidated revenue fund, with the approval of the governor in council, make an advance to the fund of the amount required to meet the deficit.

It does not say what is to happen to the deficit when the deficit arises. The Minister has interpreted this as authority to write it off. My point is I think it should be put in the estimates in order that it could be considered in the same way you consider the other funds.

Mr. SOUTHAM: Could we word it in such a way that it would give effect to the intangible factor of climate.

Mr. HENDERSON: That could be put in; but as you will notice the 1961 public accounts committee recommended this be done. I was hoping you would endorse this in 1963.

Mr. STARR: What you really are suggesting is an estimated amount should be in the estimates for consideration by parliament in the same way as the \$35 million for municipal winter works?

Mr. HENDERSON: Yes.

Mr. STARR: At that time no one knows how much of that will be taken up, but in any event it is in there for consideration.

Mr. HENDERSON: Yes, sir.

Mr. HARKNESS: You have an item in the estimates covering the P.F.A.A. in any event. There always has been an item in the agricultural estimates covering the operation of the Prairie Farm Assistance Act. This of course provides a full opportunity for discussion of what the operations were in that particular year or the previous years.

Mr. STARR: There is no estimated amount.

Mr. HARKNESS: Because of the impossibility of estimating whether you are really going to have a profit or a loss in that particular year.

Mr. STARR: But there are a number of items now in the estimates that are forecast and no one really knows how much the total will be at the end of the fiscal year. This is what Mr. Henderson is trying to point out.

Mr. HARKNESS: The figures are given so I can see no value whatever in making an estimate of \$5 million or \$10 million when you have not the slightest idea whether you are going to have to spend \$40 million or whether you are going to have credit balance of \$5 million.

Mr. HENDERSON: May I speak to that? I have here the 1962-63 estimates. Under agriculture, under the caption "special" we have the Prairie Farm Assistance Act, administration, and it is only \$704,000. We then look a little

further down and we see the next one is the amount required to regroup the agricultural commodity stabilization account to cover the net operating loss of the agricultural stabilization board from March 1963, \$71 million, which is a separate item. I am expressing the hope that you will have another one here which will refer to this situation.

May I say that from 1939 up to 1963—throughout those years—I have here a list of the deficits in the prairie farm emergency fund, and in only four of those years has there in fact been a surplus. The rest have all been deficits. I am speaking from memory now and I would stand to be corrected on this but it is my impression that this has never been debated in the house in this fashion.

Mr. HARKNESS: Yes, it has been debated quite frequently.

Mr. HENDERSON: But the total deficits here of \$184 million have not.

Mr. HARKNESS: I can remember, back in the period of 1945 to 1950, when debate went on for days on this P.F.A.A.

Mr. HENDERSON: I am speaking of the loss or of the deficit resulting from the operation. That is the point, not the administration of P.F.A.A. The committee did see fit in 1961 to recommend that consideration be given to amending this act to accomplish this purpose. The Department of Agriculture, through their deputy minister, have also given it their blessing.

Mr. SOUTHAM: I would like to say that in my remarks I was not adverse to this suggestion. I was hoping we could resolve the problem so as to clarify the uncertainty on how much this was going to be. If we can do anything to make the bookkeeping and the Auditor General's work easier and simplify this as far as the general public is concerned, I am all for it.

Mr. McMILLAN: Could I move a motion that this committee give consideration to this recommendation?

The CHAIRMAN: I have no objection to the motion, but I would think that rather than have a series of individual motions dealing with individual subject matters we could deal with all of them at once when we consider the report.

Mr. HARKNESS: I do not see that anything would be gained by putting an extra item in the estimates in this regard because we will have an opportunity to review it in the items that are already there on P.F.A.A. It seems to me this is a needless duplication.

Mr. STARR: It will increase the budget for the minister when he introduces it.

Mr. HARKNESS: Yes, I think it unnecessarily increases the estimates shown as expenditures for agriculture and thus presents to some extent a false picture.

Mr. HENDERSON: Nevertheless, it is an expenditure charged which parliament has not approved.

Mr. STARR: Instead of getting it at the end of the fiscal year you get it at the beginning.

Mr. MUIR (*Lisgar*): That is one place where I would be a little afraid to have this thing done, in that you are showing a deficit on P.F.A.A. every year regardless of whether you have one or not.

Mr. STARR: Except for two years.

Mr. HENDERSON: It could be a supplementary estimate.

Mr. MUIR (*Lisgar*): I know a lot of eastern people think they are keeping western farmers, which is very wrong because we happen to be keeping them. However, I am wondering if it would serve the purpose which you probably had in mind at the previous committee meeting.

The CHAIRMAN: There seems to be two opposing points of view here.

Mr. MUIR (*Lisgar*): It should be debated if there is a deficit, but if there is no deficit, then we are showing an item appropriated for, say \$40 million, that is not being used. I think it might create a false impression of what the Department of Agriculture is doing. I make this statement because I know that up until about 1958 the province of Manitoba in that particular account had a surplus of \$2 million from the inception of the act in 1939.

Mr. SOUTHAM: We are the offenders in Saskatchewan!

The CHAIRMAN: We will have the deputy minister of finance here and we can then hear his views. I think the issue is clearcut and the committee will come to a decision before we prepare our report. Possibly we can move on to item 59:

59. *Unusual charge to Vote 67.* This vote provided the sum of \$9,574,385 for "departmental administration" of the Department of Defence Production. Included among the charges to the vote, however, with the concurrence of the treasury board, was an amount of \$52,882 for the cost of demolishing a wharf at Dartmouth, N.S., which had been built by the department of munitions and supply during world war II. The wharf was declared surplus to the Crown Assets Disposal Corporation in 1947 but the corporation was unable to dispose of it and responsibility for it was returned to the Department of Defence Production. In 1958 the national harbours board recommended its demolition because its condition was regarded as a hazard to navigation. This was accomplished by contract during the year under review.

The propriety of charging an outlay of this nature as an administrative expense, without a special reference being included in the text of the vote, is open to question.

Mr. HENDERSON: Item 59 explains how the cost of demolishing a wharf in Dartmouth, Nova Scotia was charged, with the concurrence of treasury board, by the Department of Defence Production to its work for departmental administration. I go on to suggest that an expenditure of this nature is not an administrative expense, and therefore I do not think the item should have been charged in this manner unless the vote wording authorized it. This is not dissimilar to the first one we dealt with.

The CHAIRMAN: It is a question of wording in the actual vote itself, is it not?

Mr. HENDERSON: I would hope that members might confirm this view.

Mr. REGAN: What happens now?

Mr. HENDERSON: I hope that more care will be taken in the wording of votes in future.

Mr. REGAN: But this one is paid, is it not?

Mr. HENDERSON: There is nothing we can do about this one now.

The CHAIRMAN: We are now on paragraph 60.

60. *Construction of naval vessel on cost plus basis.* In November 1960 the government approved a recommendation of the Canadian Maritime commission that a contract for the construction of a vessel, known as a tank cleaning barge, to fill a navy requirement be allocated, without competition, to a certain shipyard—the intention being to introduce a winter work project there. The ensuing contract, entered into with Treasury Board authority, was for an estimated amount of \$500,000, sales



tax extra, on a "price to be negotiated" basis pending the establishment of a firm price, at which time the further approval of the treasury board was to be sought.

The work was carried on during the winter of 1960-61 and the completed barge was turned over to the navy in November 1961. Throughout this period vigorous efforts on the part of the Department of Defence Production failed to result in the negotiation of a firm price. In May 1962 the cost was determined to be \$658,000, including a fee of \$30,000, or \$158,000 in excess of the original estimate of \$500,000. The work having been prolonged, the excess cost was largely caused by the fact that the job had a labour content of over 80,000 man hours compared to about 40,000 estimated for a similar barge which was being constructed for the department under competitive conditions at another shipyard for a firm price of \$357,000, sales tax extra.

The treasury board expressed concern that the cost of construction of a vessel at one shipyard should be nearly twice the cost of a vessel of similar specifications constructed at another shipyard and they requested the department to take a stand and seek a lower price, adding that they regarded this as a particularly distressing example of the needless expenditure of crown funds when the amount for overhead is not negotiated on entering into a contract and the crown is thus forced to take a share of unabsorbed overhead. In reply, the department reminded the treasury board that this situation would not have arisen had they been permitted to obtain competitive tenders in the normal manner instead of the contract being allocated in the manner described, adding that in their opinion conditions necessary to the establishment of effective and economical contractual arrangements were missing in this case through circumstances of allocation before contractual negotiations were made.

Shortly before our audit was completed, treasury board directed that the overhead element in the costs should be reduced according to a formula which would result in a reduction of some \$34,000. The total authorized cost for final settlement thus became \$624,000, sales tax extra.

Mr. HENDERSON: This relates to the construction of a naval vessel on a cost plus basis. It has to do with the allocation of a contract made by the Department of Defence Production, without competition, to a shipyard for the purpose of providing a winter works project in that area.

Mr. STARR: Where was this?

Mr. HENDERSON: I do not usually disclose the names of places or people.

Mr. STARR: But they had a long winter there.

Mr. HENDERSON: As you see, the contract was for an estimated amount of \$500,000 on a "price to be negotiated basis" pending establishment of a firm price. The department was unable to achieve this, but 18 months or two years later the cost was found to be \$658,000. The excess cost of \$158,000 was largely due to the fact that the work had been prolonged and had a labour content of over 18,000 man hours compared to 14,000 man hours estimated for a similar tank cleaning barge being constructed elsewhere for the Department of Defence Production under competitive conditions for a firm price of \$357,000.

Mr. HARKNESS: This is a good example of the fact that when you attempt to provide employment in a certain area and you award a contract not on a definite basis, it is inevitable that you are going to run into much greater cost than would be the case if you put the thing out on a competitive basis. If, as

a matter of policy, you are going to attempt to provide work in a place where unemployment happens to be bad, you are bound to run into this sort of thing. This particular matter concerns me very much because the money was coming out of my estimates in the Department of National Defence at that time, and it is the sort of thing to which by and large I take serious objection. It is only really done when an attempt is made to provide work in a certain area where there would not be any work otherwise. It has to be looked upon I think not from the point of view of getting work done most cheaply but really as a means of providing employment at a particular spot.

Mr. REGAN: I am wholly in agreement with Mr. Harkness on this matter. One has to consider surely what the alternatives were, if this money had not been extended in whatever particular area this was, then it is quite possible that other departments of government would have had to extend revenue in other ways to alleviate unemployment conditions in that area. I think the long range over-all outlook must be kept in mind, that this is good for the economy. However, when it must occur, then it should be kept closely under supervision and not allowed to be abused.

Mr. SOUTHAM: I wonder if Mr. Henderson's concern here is whether this extra expenditure did accomplish in fact what we set out to do, that is whether it provided more employment.

Mr. STARR: Forty thousand man hours more.

Mr. HARKNESS: There was twice as much labour put into this as there was in a similar vessel which was built in another place.

Mr. STARR: You must bear this in mind, that there is a great discrepancy in the cost of building a naval vessel of any kind as between the west coast and the east coast and Ontario. Ontario seems to be able to underbid the west coast by a great deal. Consequently, if you stick strictly to the lowest tender basis, then most ships would be built in Ontario, in Collingwood, or Port Weller or any of these places which can outbid the west or the east coasts.

The CHAIRMAN: I would think that it would not be Mr. Henderson's province to actually indicate his view on the question of policy involved here.

Mr. HENDERSON: That is quite correct, sir. The difference of opinion that I have mentioned between treasury board and the department raised an interesting set of facts, and of course, as you have noted, the contract was let without competition. I think it was the Canadian maritime commission which recommended to the government that this be done, and they proceeded to allocate this contract to this particular yard. This is what happened.

Mr. SOUTHAM: In fact, Mr. Chairman, was there not a situation where there was another shipbuilding firm in that immediate area that could have tendered, or was this just a one-shot stimulus to the unemployment situation?

Mr. HENDERSON: I cannot say. Do you know, Mr. Millar?

Mr. MILLAR: I think in the immediate area there was only the one contract.

The CHAIRMAN: Would the committee be interested in trying to secure the attendance of someone from the Department of Defence Production with regard to this? This is an item of some interest.

Mr. STARR: I do not think it is necessary. We are all in agreement here.

Mr. REGAN: I was going to say that as I understand the situation this was not one of the so-called major shipyards that exist in the large cities of Nova Scotia and New Brunswick, the St. Lawrence and the west coast. This was a small shipyard in a small town where employment was necessary. I think that, beyond the comments that have already been made by several of us, we also have to keep in mind that it is probably in the national interest to take steps to continue the existence of these small shipyards.

The CHAIRMAN: We disposed of paragraph 61 at our last meeting when Mr. Moran was here. Paragraphs 62 to 68 all deal with matters in which the Department of Finance is involved. I would hope we might have some comment on as many of these as possible from Mr. Henderson. Mr. Bryce has indicated that when the federal-provincial conference now taking place this week is completed, he and the officials of his department will appear before us and will then be able to comment on these and other items in which his department is interested. At this time it might be helpful, as a preliminary to his appearance, to hear from Mr. Henderson with regard to as many of these paragraphs as may be brought to our attention today.

Mr. HENDERSON: I will endeavour to do it speedily and to give you the highlights. Paragraph 62:

62. *Government contributions not made to superannuation accounts.* In last year's report (paragraph 59) attention was drawn to subsection (2) of section 32 of the Public Service Superannuation Act, 1952-53, c.47, which reads:

There shall be credited to the superannuation account, as soon as possible following the authorization of any salary increase of general application to the public service, such amount as, in the opinion of the minister, is necessary to provide for the increase in the cost to Her Majesty in right of Canada of the benefits payable under this act, as a result of such salary increase.

Similar provisions are contained in the Canadian Forces Superannuation Act, 1959, c.21, and the Royal Canadian Mounted Police Superannuation Act, 1959, c.34.

It was stated last year that no special credits were given to the public service superannuation account, the Canadian forces Superannuation account or the Royal Canadian Mounted Police superannuation account (with offsetting charges to expenditure) to provide for the increases in benefits payable as a result of the salary and pay increases granted to the members of the public service, the armed forces and the Royal Canadian Mounted Police during the year ended March 31, 1961—although the additional liabilities resulting from these increases were estimated at \$80,700,000, \$79,050,000 and \$1,760,000, respectively.

It was also mentioned in last year's report as being understood that, so far as the public service superannuation account was concerned, the Department of Finance took the view that, since the salary increases during 1960-61 had been granted to different groups of civil service classes at intervals over a period of several months, they did not represent a "salary increase of general application" for the purposes of the above-quoted statutory requirement.

No contribution was made to the public service superannuation account during the year under review in respect of the salary increases, ranging up to \$1,000 per annum, granted to approximately 7,000 employees in certain classes in the civil service, approved by the treasury board on February 15, 1962 retroactively to July 1, 1961. We were informed by the department that no estimate was available of the additional liability that was thereby imposed upon the account, and that no request had been made to the department of insurance for the making of such an estimate.



If this practice is continued, and the special credits referred to in subsection (2) of section 32 of the act are not given to the public service superannuation account (with offsetting charges to expenditure) when increases are granted during a fiscal year to one or more substantial groups of civil service classes, the subsection in question will be rendered inoperative. To the extent that the practice is continued, the present considerable actuarial deficiency in the account will continue to mount.

I first drew this matter to your attention in my 1961 report when, following the granting of salary increases to different groups of public services over a period of several months, no credits—that is credit with offsetting charges to expenditure—were made to the superannuation accounts concerned as required by the relevant act. Section 32, of the Public Service Superannuation Act is quoted, as you will observe, and this calls for certain credits to be made as and when salaries are increased. The superannuation credits called for by these salary increases in the previous year, 1960-61, would have amounted to over \$160 million. These, however, were not made, were not credited to the superannuation fund nor were they charged to expenditure.

We can now turn to paragraph 63:

*63. Errors in public service superannuation account pension and contribution calculations.* Reference is made to the comments on this subject contained in paragraph 61 of last year's report. Since then, further meetings have been held with officers of the Department of Finance to consider what steps should be taken to secure a greater measure of internal control.

Our test examinations of the records of the superannuation branch for the year ended March 31, 1962 continued to disclose a high incidence of error, involving both overpayments and underpayments of pension on a continuing basis, and also incorrect charges for contributory service. As was pointed out in last year's report, many such errors could be avoided were there a complete review or internal audit of the contributors' files prior to authorization of the payment of benefits.

The administrative directive issued several years ago and quoted in last year's report, provided that once the superannuation branch had determined the extent and cost of elective service in the case of an election made prior to January 1, 1954, the case for administrative purposes was to be considered closed unless any contributor or his employing agency reopened the case, in which event the relevant laws were to be applied. It was intended that there would be a complete verification of elective service cases by the superannuation branch where the election had been made subsequent to January 1, 1954, and that, in the meantime, all such cases would be checked as usual at retirement. However, in February 1958 this program was abandoned.

Although the practice of making a final check of elective service, prior to authorization of the payment of benefits, was resumed in April 1962, the operations of the superannuation branch continue to give cause for concern. We were informed by the secretary of the treasury board in May 1962 that consideration was being given to the re-establishment of the comptroller of the treasury's pre-audit which had been discontinued in 1958, but we have not yet been informed of any decision in the matter.

In the case of the public service superannuation account, the Department of Finance took the view that as the increases were cyclical, they did not represent the salary increases of general application as stated in section 32 of the act. In this note I go on to record that the same situation took place again in 1961-62, but there are no estimates available as to the additional liability arising from this year's salary increases because no request was made for the figure by the Department of Finance to the department of insurance. If this practice continues, and it has been continued I might say in 1962-63, then subsection (2) of section 32 of the Public Service Superannuation Act will be rendered inoperative and the present considerable actuarial deficiency in this fund will continue to mount in increasing proportions. I understand Mr. Bryce will speak on this when he appears before you.

Mr. McMILLAN: In other words, the deficit for the year should be increased by these amounts?

Mr. HENDERSON: Yes, that is correct.

Mr. SOUTHAM: May I interpret your remarks as meaning that under the act we are making appropriations in comparison to the cyclical increases and that this is unsound? This would be quite a serious situation.

Mr. HENDERSON: Yes. I do regard this as a very serious note.

Mr. McMILLAN: Have you any idea of the total, roughly speaking?

Mr. HENDERSON: I do not think this has been calculated. While the figure was \$161 million, as I have mentioned, for 1960-61, it was not calculated for 1961-62 or for 1962-63.

Mr. McMILLAN: Roughly \$80 million a year?

Mr. HENDERSON: It was \$161 million in 1960-61. It depends on the size of the increases given. The concept is that as you raise salaries so much, so do you put something into the pension fund to match it.

Paragraph 63 deals with errors in the public service superannuation account pension and contribution calculations. Here again this comment is brought forward from the 1961 report because of the continued high incidence of errors arising in the superannuation branch of the Department of Finance, involving both overpayments and underpayments of pension on a continuing basis, and also in the charges for contributory service. In 1961 I pointed out that many such errors could be avoided. You will note there had been a reasonable interval check up applied until February, 1958, but at that time the checking was abandoned. Although it was resumed in April, 1962, the operations of the superannuation branch have continued to give cause for concern.

This is a subject with which Mr. Bryce is concerned, and I feel sure he would wish to speak to you about it.

64. *Questionable revision of basis for calculation of annuity.* An employee of a government agency became a contributor to the superannuation account in 1944 and elected to contribute for prior part time service as a consultant to the agency. In this former capacity, during a period of seventeen and one half years he had received \$40,800 from the agency while drawing \$70,000 in salary from his principal employment. A credit of half-time for the prior service with the agency was requested for superannuation purposes but, after due consideration, the superannuation branch decided, in 1945, that it was prepared to accept the election on the basis of only four months to the year, this being more closely proportional to the earnings.

In 1961, on the eve of the contributor's retirement, and as a result of further representations, service of six months to the year was allowed for the prior part time service, with the result that there was an increase of \$877 per annum—from \$6,865 to \$7,742—in the annuity that was authorized for payment.

Paragraph 64 deals with a case which the superannuation branch opened up after it had long since been closed. In the absence of firm and well administered regulations such action can be unfair to other pensioners; that is, contributors who in fact may be in a like position. You will see here that 16 years after they have made their decision, the superannuation branch revised their calculation on the eve of the contributor's retirement, increasing his pension by some \$800 a year.

Mr. MUIR (*Lisgar*): Is there something we can do about this?

Mr. HENDERSON: This is an action I considered should be mentioned. The case was opened as a result of special representations after a decision had been made 16 years before. I felt it to be a matter which should be brought to the attention of the house.

Mr. MUIR (*Lisgar*): Have you found any recent similarities?

Mr. HENDERSON: We bring up a number of such cases from time to time, and I think the house should know of them.

65. *Payment under pension plan for employees engaged locally outside Canada.* Pension plans for employees engaged locally (a) in the United States (b) in the United Kingdom and the Republic of Ireland, were established with the approval of the governor in council in 1957, and reference was made to these plans in our 1958 report (paragraphs 56 to 59). In its second report, 1959, the standing committee on public accounts commented on these plans and stated.

It was drawn to the notice of this committee that the Public Service Superannuation Act excludes from its benefits 'an employee engaged locally outside Canada' and that the sole authority for entering into the arrangements was a vote having this text: 'government contributions to pension plans for employees engaged locally outside Canada'. Therefore, the matter before the committee was whether the text of this vote was sufficiently explicit to vary a statement of policy enunciated in the Public Service Superannuation Act.

It is a commonplace to say that, save when the prerogative is applicable, public administration derives its authority from some provision in a statute and that, while the text of a vote may be such as to result in an enactment, such an intent should be clearly stated. The reason is that the object of supply and appropriation being simply to furnish the crown with authority and opportunity to draw on consolidated revenue fund, the committee of supply should never be presumed to be simultaneously determining the law applicable, save and except when the text of the item necessitates.

In the present cases, contracts have been negotiated and a substantial number of persons have been contributing for over a year. In the circumstances, your committee accepts the status quo but records that it is of the opinion that legislation is desirable before any like arrangement is entered into with respect to locally engaged persons in any other country.



In June 1961, notwithstanding the opinion thus expressed by the committee, the treasury board authorized a non-contributory pension plan for employees engaged locally in countries other than the United States, the United Kingdom and the Republic of Ireland and to whom the previously established pension plans did not apply. In so doing, the board apparently relied on the general authority granted to it under section 7 of the Financial Administration Act to make regulations prescribing conditions of employment of persons in the public service, and for an yother purpose necessary for the efficient administration of the public service.

In the audit office view, it is doubtful if appropriate authority for the action taken is, in fact, provided by this section because future parliaments are thus morally committed to provide funds for a pension scheme in respect of which no parliament has been asked to legislate.

A single benefit under the new noncontributory plan—a lump sum payment of \$735—was charged during the year under review to the annual vote for “Government’s contributions to pension plans (and death benefit plans) for employees engaged locally outside Canada who are excluded from the Public Service Superannuation Act” (Vote 124).

This deals with payment under pension plan for employees engaged locally outside Canada. You will note that the public accounts committee in 1959 expressed the opinion that legislation was desirable before any further arrangements were entered into with regard to locally engaged persons in any other country. Despite this opinion of the committee, the treasury board in 1961 authorized a noncontributory pension plan for employees engaged locally in certain countries to whom the previously established pension plans did not apply, and who specifically were excluded from the Public Service Superannuation Act.

The view of the audit office is that it is doubtful whether the Financial Administration Act is intended to give authority for this type of action because in setting up a noncontributory pension plan future parliaments can be said to be morally committed to provide funds for a pension scheme in respect of which no parliament has been asked to legislate. I think your views on this point would be most helpful, but perhaps you would like to hold this until Mr. Bryce is with us.

Mr. SOUTHAM: It might be well, Mr. Chairman, to leave these several paragraphs until Mr. Bryce is here.

The CHAIRMAN: Yes. I thought we would get Mr. Henderson’s views on the record before Mr. Bryce is called, so that he will have an opportunity to read them. I have in mind that we ask Mr. Bryce to appear a week from today, if he is available.

Mr. HENDERSON: At this time I am endeavouring to give you a bird’s eye picture of what the problems are. The deputy minister, Mr. Bryce, will deal with questions about them.

66. *Interest charges on loans to the National Capital Commission.* In last year’s report (paragraph 62) it was stated that it seemed unrealistic to put the national capital commission in the position where it was required to pay interest on loans obtained from the government of Canada for the purpose of acquiring property in the national capital region, when funds to meet the interest payments themselves must be provided through parliamentary appropriations.

Up to March 31, 1962 loans totalling \$35,100,000 had been made to the commission and its predecessor, the federal district commission (being an increase of \$9,800,000 during the year under review) for the

purpose of acquiring property in the national capital region. Of this amount, \$3,622,000 had been repaid, leaving a balance of \$31,478,000. The loans are secured by promissory notes bearing interest payable semi-annually at rates of from 4 per cent to 5½ per cent per annum, and repayment is to be made when the property is "used for the purposes of the commission or disposed of". Repayments of \$3,553,000 in 1961-62 included \$3,200,000 received from the Department of Public Works on account of the cost of 4,400 acres of land allocated for the use of the animal research institute of the Department of Agriculture.

Interest payments by the commission in 1961-62 amounted to \$1,505,000 and were credited to revenue by the Department of Finance as "Return on Investments". Of this amount, \$201,000 came from net income from rentals and interest on bank deposits and \$1,304,000 was provided by a parliamentary appropriation (Vote 376) for payment of interest to the receiver general.

The following is a summary of property acquisitions as at March 31, 1962, financed by means of loans provided to the commission:

Greenbelt.....	\$ 23,375,000
Queensway.....	3,009,000
Ottawa River Parkway.....	870,000
Eastern Parkway.....	804,000
Other properties.....	2,520,000
	<hr/>
	\$ 30,578,000

The properties in the greenbelt are mostly farm properties which are unlikely to yield anything approaching sufficient rental to pay interest on the sums paid to acquire them and, by executive direction, they may not be sold. As the lands acquired for the Queensway, the parkways and other projects are put into use in the next few years, appropriations will be required to provide funds through the national capital fund in order to pay off the amounts of the loans made with respect to such lands.

We remain of the opinion that, since outlays on such properties are expenditures of the Crown rather than income-producing investments, parliament should be asked to appropriate funds in the years in which properties are to be acquired, instead of leaving the expenditure involved in the repayment of loans to be absorbed in future years.

This paragraph is in respect of interest charges on loans to the national capital commission. This is the second year in which the audit office has brought up this item. It is beyond the ability of the national capital commission to earn income sufficient to pay this interest. This unrealistic practice gives rise to the second question dealt with in this paragraph. It seems reasonable that parliament should be asked to appropriate funds in years in which properties are acquired instead of leaving the expenditure involved in the repayment of loans to be absorbed in future years. I might say this is a point with which Mr. Bryce is particularly familiar. We have had some discussion about it.

67. *Deletion of debts due to the Crown.* In last year's report (paragraph 64) reference was made to balances totalling \$190,986 that had been carried as assets in the statement of assets and liabilities, and that (along with balances in memorandum departmental accounts) were deleted from the accounts under the authority of a dollar vote although special reference to these asset balances had not been made in the wording of the vote.

A dollar vote (Vote 710) under the Department of Finance, included in 1961-62 further supplementary estimates (4), provided similar authority for deletion from the 1961-62 accounts of certain debts and claims amounting in the aggregate to \$3,710,688. As in the preceding year, there is nothing in the wording of the vote to indicate that, along with balances totalling \$3,704,318 in memorandum departmental accounts, there were also two balances totalling \$6,370, representing advances made under the Veterans' Land Act that had been carried as assets in the statement of assets and liabilities. The deletion of these two asset balances resulted in a charge for the \$6,370 total, to expenditure, as shown in the public accounts (Volume II, page 11.12).

It is the audit office view that when a balance that has been carried as an asset is to be written off as a charge to expenditure, the estimates which are laid before parliament should include an equivalent amount.

This paragraph deals with deletion of debts due to the crown. I am going to ask Mr. Long to deal with this one.

Mr. LONG: Earlier reference was made to the Financial Administration Act and the deletion of debts due to the crown. Any debt over \$1,000 requires the authority of parliament before it may be written off. In each year usually there is a dollar vote authorizing the write-off of accounts which the departments consider to be uncollectible. For the most part these accounts are memorandum accounts. There is really no bookkeeping entry so far as the central accounts of the government are concerned; but there are occasions when a special account, which was an asset on the balance sheet of Canada, is included. Our point is that when a special account is written off, an amount to cover should be included in the estimates and passed by parliament. This was not being done at the time this note was put in. It is simply a dollar vote. In 1963-64 this suggestion apparently has been accepted. There is provision now in the current estimates for a vote writing off accounts and it includes an amount to cover open accounts which are being written off.

The CHAIRMAN: Gentlemen, it is just about time to adjourn. I will ask Mr. Henderson to deal with one final item, No. 68.

68. *Indirect compensation to chartered banks.* Subsection (1) of Section 93 of the Bank Act, 1953-54, c.48, reads as follows:

No bank shall make a charge for cashing a cheque or other instrument drawn on the receiver general or on his account in the Bank of Canada or in any other bank, or for cashing any other instrument issued as authority for the payment of money out of the consolidated revenue fund, or in respect of any cheque or other instrument drawn in favor of the receiver general, government of Canada or any department thereof or any public officer in his capacity as such, and tendered for deposit to the credit of the receiver general.

Although cheques issued by the government are not drawn against accounts in any chartered bank, the Department of Finance has always followed the practice of maintaining the bulk of its cash deposit with the chartered banks, keeping only the amount required for daily operations in the Bank of Canada. Balances on deposit in the chartered banks and the Bank of Canada at March 31, 1962 amounted to \$746 million compared to \$323 million at March 31, 1961, while year-end balances on deposit during the previous eight years averaged \$352 million. The



deposits are distributed among the individual chartered banks according to a formula provided to the Department of Finance by the Canadian Bankers' Association, which is understood to be based on the costs to each bank of handling government business including the handling of government cheques.

Prior to 1957 no interest was paid by the chartered banks to the receiver general on these deposits. Since January 1, 1957 the Department of Finance has had an arrangement with the Canadian Bankers' Association whereby the banks pay interest on the amount by which minimum weekly balances are in excess of an aggregate of \$100 million. The rate of interest is currently the weekly average accepted treasury bill tender rate for the three months treasury bills, less 10 per cent of that rate. Interest revenue earned by the Department of Finance under this arrangement amounted to \$6,394,000 during the fiscal year ended March 31, 1962 compared to \$6,645,000 for 1960-61 and \$10,493,000 for 1959-60.

It seems clear from section 93(1) of the Bank Act, quoted above, that parliament does not intend that the banks should be compensated for handling cheques and other instruments payable by or to the receiver general. However, the maintenance of substantial balances with the banks on the basis described above has the effect of compensating them indirectly for these services.

If the banks are to be compensated for services provided to the crown, consideration should be given to the most equitable manner in which this may be done with statutory sanction being given by means of an appropriate amendment to the Bank Act, possibly at the time of the decennial revision in 1964.

Mr. HENDERSON: Paragraph 68 deals with indirect compensation to chartered banks. You will note that prior to 1957 no interest was paid by chartered banks to the receiver general on balances on deposit in the chartered banks. The Department of Finance quite properly felt the size of the balance justified the government asking the banks to pay interest on the balances. As we have shown, there has been an arrangement since January 1, 1957, with the Canadian Bankers' Association whereby the banks pay interest on the amount by which minimum weekly balances are in excess of an aggregate of \$100 million. Thus, the department earned over \$6 million from this source in 1961-62.

It is my view that the maintaining of substantial balances, certainly up to \$100 million, free of interest with the banks on the basis I have described, has the effect of compensating them indirectly for these services and, therefore, you might agree with me that this represents indirectly compensation to the banks which would be contrary to the provisions of subsection 1 of section 93 of the Bank Act which, as I have set out, specifically states that no bank shall make a charge for cashing a cheque or other instrument drawn on the Receiver General of Canada.

I go on to say that if the banks are to be compensated for services provided to the crown, then it would be my view that consideration should be given to the most equitable manner in which this could be done, not by arrangement between the Department of Finance and the Canadian Bankers' Association. It should be done by means of statutory sanction through an appropriate amendment to the Bank Act. Perhaps this could be done at the time of the decennial revision in 1964. I do not know what your views are in respect of this matter. You may wish to take it up with Mr. Bryce when he is here.

Mr. REGAN: I think this is a matter of great importance. I certainly am in agreement with the view that this is an indirect payment which should not be taking place. I strongly feel there should not be any statutory provision to give them remuneration for this service in the future. I think that the banks, as a consideration of their charter, should handle government cheques without any charge either direct or indirect. I think it is a bit of a disgrace that they have had the use of this large amount of money without paying interest on it. I believe this should be clarified in order to make sure these institutions, which are for the most part quite profitable and which are not known for their overly generous wage policies, should pay interest on government money deposited.

The CHAIRMAN: Would the committee be interested, at the same time Mr. Bryce appears, in having somebody from the Canadian Bankers' Association?

Mr. REGAN: I would be very interested.

The CHAIRMAN: We might possibly arrange that. I am going to suggest we adjourn at this time.

HOUSE OF COMMONS  
First Session—Twenty-sixth Parliament  
1963

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STANDING COMMITTEE  
ON  
**PUBLIC ACCOUNTS**

*Chairman:* Mr. G. W. BALDWIN

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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 6

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Public Accounts, Volumes I, II and III (1962)

Report of the Auditor General to the House of Commons—1962

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MONDAY, DECEMBER 2, 1963

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WITNESS:

Mr. A. M. Henderson, Auditor General of Canada.

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1963



## STANDING COMMITTEE ON PUBLIC ACCOUNTS

*Chairman:* Mr. G. W. Baldwin

*Vice-Chairman:* Mr. W. H. McMillan

and Messrs.

Basford,	Harkness,	Rock,
Beaulé,	Lessard ( <i>Saint-Henri</i> ),	Rondeau,
Berger,	Loiselle,	Ryan,
Cameron ( <i>High Park</i> ),	McLean,	Scott,
Cameron ( <i>Nanaimo-</i>	McNulty,	Slogan,
<i>Cowichan-The Islands</i> ),	Muir ( <i>Lisgar</i> ),	Smith,
Crouse,	Noble,	Southam,
Drouin,	Nowlan,	Stefanson,
Dubé,	O'Keefe,	Starr,
Eudes,	Olson,	Tardif,
Fane,	Pigeon,	Tucker,
Fisher,	Pilon,	Valade,
Forbes,	Regan,	Wahn,
Frenette,	Ricard,	Whelan,
Gendron,	Richard,	Woolliams—50.
Gray,	Rinfret,	
Hales,	Rochon,	

M. Slack,  
*Clerk of the Committee.*

## MINUTES OF PROCEEDINGS

MONDAY, December 2, 1963  
(8)

The Standing Committee on Public Accounts met this day at 11.10 a.m. The Chairman, Mr. G. W. Baldwin, presided.

*Members present:* Messrs. Baldwin, Crouse, Fane, Forbes, Gray, Hales, Harkness, Lessard (*Saint-Henri*), McMillan, Muir, (*Lisgar*), Nowlan, O'Keefe, Regan, Ricard, Rock, Ryan, Southam, Stefanson, Starr, Tucker, Wahn—(21).

*In attendance:* Mr. A. M. Henderson, Auditor General of Canada; and Messrs. Long, Smith, Douglas, Millar, Rider and Laroche from the Auditor General's office.

The Committee resumed its consideration of the Auditor General's Report for the year ended March 31, 1962.

The Chairman called paragraph 68 and Mr. Henderson commented on the indirect compensation to chartered banks and was questioned thereon.

The Committee agreed that Mr. Bryce, of the Department of Finance, be heard with respect to paragraph 68.

On paragraph 69, Bankruptcy Act administration, the Chairman read into the record a letter from the Minister of Justice to the Chairman of this Committee dated July 9, 1963, dealing with paragraphs 69, 71 and 114 of the Auditor General's Report (1962).

*Agreed*,—That the letter from the Minister of Justice which enclosed copy of a letter from the Director of Investigation and Research under the Combines Investigation Act to the Auditor General dated April 25, 1963, dealing with paragraph 114 of the Auditor General's Report, be printed as an Appendix to this day's Evidence. (*See Appendix*).

On paragraph 71, Mr. Henderson commented on living allowances to federally appointed judges and was questioned thereon.

On paragraph 114, Mr. Henderson reviewed the subject of identical tenders and was questioned thereon.

After discussion, Mr. Gray moved, seconded by Mr. Rock, that Mr. D. H. W. Henry, Director of Investigation and Research under the Combines Investigation Act be called to appear before this Committee to testify regarding the matters raised by paragraph 114 of the Auditor General's Report for the fiscal year ended March 31, 1962, and Mr. Henry's letter dated April 25, 1963, addressed to the Auditor General. *Motion carried*.

On paragraph 70, 72 and 73, the auditor General supplied supplementary information.

On paragraph 74, Mr. Henderson reviewed the matter of reimbursement to servicemen for lease termination payments and referred to the Committee's 1961 recommendation on this subject.

Mr. Henderson was examined on paragraph 74, assisted by Mr. Miller.

The questioning of Mr. Henderson still continuing, at 12.50 o'clock p.m., the Committee adjourned until 9.00 o'clock a.m., on Friday, December 6, 1963.

M. Slack,  
Clerk of the Committee





## EVIDENCE

MONDAY,<sup>c</sup> December 2, 1963

The CHAIRMAN: Gentlemen, I see a quorum. The meeting will come to order.

On Friday we had been dealing with items 62-68, inclusive, which were matters in which we felt the Department of Finance were interested. As I understand it, Mr. Bryce will be here next Friday to deal with these matters. We had not quite finished item 68, "indirect compensation to chartered banks". Are there any comments in respect of 68 before we pass on?

Mr. McMILLAN: What does the Auditor General recommend in respect of paragraph 68? Does he suggest we take up with the chartered banks the matter of the government being allowed interest on these amounts?

Mr. A. M. HENDERSON (*Auditor General*): In my comment here I gave the opinion that the maintaining of substantial balances, certainly up to \$100 million, free of interest with the banks on the basis described in this note, has the effect of compensating them indirectly for their services. The views of the committee on this point would be appreciated, because if this can be said to represent indirect remuneration to the banks, then it would appear to be contrary to the provisions of subsection (1) of section 93 of the Bank Act which specifically states that no bank shall make a charge for cashing a cheque or other instrument drawn on the Receiver General of Canada.

Mr. McMILLAN: Then we should make a recommendation.

Mr. HENDERSON: I do not know whether you agree that my comment is a valid one, sir. We just commenced discussing this at the last meeting.

Mr. McMILLAN: I thought we had arranged at that time to make a recommendation.

Mr. HENDERSON: I think not. Mr. Regan spoke to it and we adjourned.

The CHAIRMAN: I think we felt we would like to hear from Mr. Bryce in respect of his views.

Another question which arises is, does the committee think it might be of any value to have a representative from the banks here, having in mind that according to what has been reported by Mr. Henderson there was an arrangement between the banks and the department with regard to the way in which these deposits are distributed. I do not know how the committee feels about that. Do you feel you would like to have a representative here?

Mr. McMILLAN: I think it would be well to hear from both sides.

The CHAIRMAN: Unless the committee decides otherwise, I propose to invite someone from the Canadian Bankers Association to be present at the same time as Mr. Bryce appears so that we will have all points of view.

Mr. ROCK: Have the banks ever requested changes in this regard?

Mr. HENDERSON: Not to my knowledge.

Mr. ROCK: If we do not have a request from the Canadian Bankers Association to present their case, why should we invite them?

Mr. HENDERSON: That is entirely for the committee to decide. What I said on Friday, which I might repeat, is that prior to 1957 no interest was paid by the chartered banks to the receiver general on the large deposits maintained by the government in the chartered banks. The Department of

Finance quite properly felt that the size of these balances justified the government asking the banks to pay interest on the balances. Since January 1, 1957, the department has had an arrangement with the Canadian Bankers Association whereby the banks pay interest on the amount by which the minimum weekly balances which are maintained in the chartered banks are in excess of an aggregate of \$100 million. Thus, the department earned approximately \$6,400,000 from this source during 1961-62. So, the Department of Finance most certainly has given attention to the possibilities of obtaining income from this source and has succeeded. However, balances up to \$100 million continue to be interest free to the chartered banks. This is the factor which I suggest could be considered as indirect compensation for services. I asked the question whether the committee shared that view; if so, you may wish to question a representative of the banks. I know Mr. Bryce would like to speak to this on Friday.

Mr. HALES: Do you know what any of the provinces of Canada do in this regard?

Mr. HENDERSON: Perhaps Mr. Long would answer that.

Mr. G. R. LONG (*Supervisor, Auditor General's Office*): We do not have knowledge of this in respect of the provinces. I think it would be a different situation. The banks operate under dominion charter, and this is a provision in the dominion Bank Act.

Mr. HALES: If the province of Ontario, or any other province, had a balance running all the time, would the bank not pay them interest on every dollar they have?

Mr. LONG: We do not have knowledge of this.

Mr. HALES: I think we should find that out.

The CHAIRMAN: I believe, Mr. Henderson, you had in mind that it was the Bank Act as it relates to this transaction with the federal government?

Mr. HENDERSON: Yes; but it would be useful to know that fact. I am afraid I do not have the details of it; we could make inquiries. I will pass this suggestion along to Mr. Bryce, if I may, so that on Friday he might speak on that point.

Mr. SOUTHAM: This is a very interesting subject. As pointed out in paragraph 68, the Bank Act itself states that no bank shall make a charge for cashing a cheque or other instrument. Certainly the government is a large business, and \$100 million or excess of that amounts to quite a bit of money. As you mentioned, already we have accepted interest of \$6 million, over and above the \$100 million; why not accept interest on all the surplus?

Mr. HENDERSON: Mr. Bryce will speak to the arrangements they have with the bank.

Mr. HALES: I substantiate what Mr. Southam has said, but before we proceed with this I think the banks should have an opportunity to express some views on the subject, as you suggested, Mr. Chairman.

Mr. FANE: Mr. Chairman, if the banks were to pay interest on all the money that was in the bank, then they would probably be free to charge ten cents per cheque for every government cheque they cashed, so it is a case of a saw-off which every way it goes.

Mr. HENDERSON: Of course, Mr. Fane, you would have to amend section 93 of the Bank Act before they could make such a charge, would you not?

Mr. FANE: Yes, but they would be wanting to do that immediately, I would think.

Mr. SOUTHAM: I think the solution would be to ask the banks to appear to discuss this whole problem. We can appreciate that our business, from a

federal point of view, has increased so much in the last years that they may wish to present a case for the Bank Act to be amended, or we might have a case that there should be a compromise in this matter. I think it should be considered further because, as Mr. Henderson has pointed out, a great deal of money is involved from this \$100 million surplus.

Mr. NOWLAN: I think it would be a good idea to hear Mr. Bryce. The sum of \$100 million is not a small amount. Of course, the government is probably in a better position than we individuals in the matter of obtaining interest.

The CHAIRMAN: Are there any other comments on this?

It is very unlikely that Mr. Bryce will cover everything between paragraph 62 and paragraph 68 on Friday. We might deal with item 68 first and then discuss it with Mr. Bryce. If we come to the conclusion after hearing him that we want a representative from the Canadian Bankers Association to come here, we can ask them to be present. Would that be satisfactory? Will someone make a motion one way or the other?

Mr. HARKNESS: I agree. I think that is satisfactory.

The CHAIRMAN: May we pass on to paragraph 69.

I have a letter here directed to the chairman of the public accounts committee from the Minister of the Department of Justice, dated July 9, 1963. There was of course no public accounts committee at that time and no chairman, but the letter deals with paragraph 69, paragraph 71 and paragraph 114, all matters with which the Department of Justice have some concern.

Copies of this letter were distributed to members of this committee, but I will read it for the benefit of those who have not a copy here.

Dear Sir:

In paragraphs 69, 71 and 114 of his report to the House of Commons for the fiscal year ended March 31, 1962, the Auditor General makes certain comments concerning matters relating to the Department of Justice.

There are some considerations bearing on these comments to which I should like to draw your attention, for such assistance as they may be to your committee when they come to deal with these matters.

The comments in paragraph 69 respecting the Bankruptcy Act administration are correct and are, I believe, self-explanatory. If any further details or statistics should be required, I would be happy to supply them to the committee.

With regard to paragraph 71 commenting on living allowances to federally-appointed judges, I understand that allowances are taxable under the Income Tax Act. A judge who acts as a conciliator or arbitrator must frequently work long hours away from his home and I suggest it is not unreasonable to expect that he should have comfortable lodgings. He might, for example, consider it necessary to have a sitting-room in the hotel so that he would have a place to work. Suitable accommodation plus the cost of meals could, especially in the larger cities, bring the total actual cost up to approximately the net amount of the allowance remaining after taxes, and of course judges could not be expected to act in these matters if they themselves had to pay part of the expenses.

With regard to paragraph 114, concerning identical tenders, I enclose a copy of a letter dated April 25, 1963, from the director of investigation and research under the Combines Investigation Act to the Auditor General containing his observations with regard to the Auditor General's comments, with which I concur.

Yours sincerely,  
(signed) Lionel Chevrier.



May this letter be printed as an appendix to the proceedings for the day? Agreed.

I suppose we can start dealing with paragraph 69, which is the first item referred to in the letter from the Minister of the Department of Justice.

69. *Bankruptcy Act administration.* The Bankruptcy Act, R.S., c.14, makes provision for a levy, at a rate to be fixed by the Governor in Council, on payments out of bankrupt estates to defray the expenses of supervision by the Superintendent of Bankruptcy. Revenue from bankruptcy supervision during the year totalled \$151,000, of which \$142,000 resulted from levies and \$9,000 from licence fees assessed under the Act. An increase from 1% to 2% in the basic rate of levy, effective December 1, 1961, contributed to an increase of \$15,000 in the income from levies during the year.

Expenditure on supervision amounted to \$142,000 for the year compared with \$74,000 in 1960-61, or an increase of \$68,000. This was a consequence of the disclosure of irregularities in the administration of estates by a number of trustees. Although the Bankruptcy Act provides for the remuneration of trustees out of the proceeds realized from the property of bankrupts, there were no funds available in some estates to meet the fees and allowances of substitute trustees who replaced those whose licences were cancelled or not renewed as a result of the irregularities. It therefore became necessary for the Department of Justice to meet the expense involved, pending possible recoveries from estates or from the bonds provided by the original trustees. The cost of investigations relating to the irregularities also contributed to the increase in expenditure.

As a result of these special costs, the excess of revenue over expenditure for the year ended March 31, 1962 was reduced to \$9,000 compared with an excess of \$61,000 for the preceding year, notwithstanding the increase in the rate of levy referred to above.

Mr. McMILLAN: What does the letter mean by "irregularities in the administration of the estate"?

Mr. D. A. SMITH (*Supervisor, Auditor General Office*): We have no detail of the nature of the irregularities, sir. We have not gone into this up to the present time because it was considered that, as the situation had not been resolved, it might be sub judice.

Mr. HENDERSON: As we understand it, Mr. McMillan, the irregularities were of a character which caused the department to cancel the licences of some of the trustees in bankruptcy. That is to say, presumably their administration did not conform to the basic standards of the Department of Justice, and that department cancelled the licences or refused to renew them. It was necessary for them to investigate the practices that were being followed. We would not have gone into the precise nature of the irregularities.

Mr. McMILLAN: You would attempt to recover the money?

Mr. HENDERSON: This note is primarily for information and to show how the administration has worked since the basic rate of the levy was increased from one per cent to two percent on December 1, 1961, which, of course, brought an increase in revenue. We show here that it was \$15,000 in that year.

Mr. HARKNESS: Is this likely to be continuing situation or was it just in the one year?

Mr. HENDERSON: That is something on which I think the department should comment. I know it has been the cause of considerable trouble to

them and I know, from various items that I have seen in the press, that the problem remains unresolved in a few quarters. They have engaged a number of extra services in order to help them out with the workload.

Mr. HARKNESS: I should have thought these irregularities would have been corrected at this time and that you would not have a recurrence in sufficient volume to cause these high expenditures.

Mr. HENDERSON: Have you any more up to date knowledge on that, Mr. Smith?

Mr. SMITH: No. Irregularities came to our attention during the fiscal year 1960-61, and the services of outside accountants were retained in order to look into these matters. The investigation is continuing. I understand that in respect of two trustees something in the neighbourhood of 800 estates were involved.

Mr. NOWLAN: They were very small estates, centralized in a small area. I understand an amendment was drafted which should have cleaned up this situation and made it more or less impossible in the future. I think it arose, as you said, in 1960 when there was a large number of very small estates involved and a lot of work going on which should not have been permitted to go on. Licences were cancelled and a substantial investigation was carried out. Amendments were proposed to the Bankruptcy Act. I am not quite sure whether they are in parliamentary committee or where they are now; but I did know something about it at one time. It was pretty well centered in one or two areas.

Mr. WAHN: The letter of the Minister of Justice indicates that if further detailed statistics were required he would be happy to supply them. Would it be sensible perhaps to ask him to furnish information showing just what is the status of the inquiry and what steps have been taken to prevent a recurrence?

The CHAIRMAN: If the committee feels this would be in order, yes.

Mr. HARKNESS: If we were to get an assurance that this is a situation which now pretty well has been cleared up and is not likely to re-occur I think that is all we need; I do not see any need to go into all the details, which would be extremely extensive, in respect of all these cases which Mr. Nowlan has mentioned.

Mr. McMILLAN: Would it be of assistance to ask the Auditor General if there is evidence of these irregularities being cleared up in the more recent audit?

Mr. HENDERSON: I cannot be specific about that at the moment, but if it would be satisfactory to the committee I will speak with the department and advise you at the next meeting in respect of this subject. Would that be satisfactory?

Mr. McMILLAN: Yes.

The CHAIRMAN: Gentlemen, would you prefer to deal with these other items referred to in the letter from the Minister of Justice at this time, namely paragraphs 71 and 114, or do you prefer to follow the order as set out in the Auditor General's report?

Mr. HARKNESS: I think it would be better if we dealt with these two paragraphs together at this time.

The CHAIRMAN: Then, that will bring us to items 71 and 114 we are passing paragraph 70 for the time being.

71. *Living allowances of federally-appointed judges.* Subsection (1) of section 39 of the Judges Act, R.S., c.159, prohibits the payment to a judge of any remuneration in addition to his judicial salary "for any

duty or service, whether judicial or executive, that he may be required to perform for or on behalf of the government of Canada or the government of any province", subsection (3) of the same section simply permitting payment of "such moving or transportation expenses and living allowance as the governor in council or the lieutenant-governor in council, as the case may be, may fix by general or special order".

Federally appointed judges have from time to time been appointed as conciliators or arbitrators on boards established to deal with disputes affecting employers and their employees. The living allowance commonly paid judges while performing these services on behalf of the government of Canada is \$60 per day, which is in addition to actual out-of-pocket expenses for transportation, parlour and pullman car accommodation, and taxicabs.

Attention is drawn to the matter because a daily rate of \$60 appears excessive as a living allowance and could be regarded as including an element of remuneration, contrary to subsection (1) of section 39 of the act.

114. *Identical tenders.* In paragraph 77 of last year's report it was brought to notice that the Department of Public Works had called for tenders for the supply of incandescent lamps and fluorescent tubes to meet the needs of various federal buildings throughout Canada during the fiscal year 1961-62 and that, based on the application of unit prices to estimated quantities, identical bids of \$301,191.16 were received from the three companies submitting the lowest complete tenders. This was the third instance of identical bids for lamps during the preceding four years, and the treasury board authorized placing the order with a company other than the one which had held the contract during the two previous fiscal years.

During the year under review the Department of Public Works called for tenders for the supply of incandescent lamps and fluorescent tubes which it was estimated would be required during the two year period commencing April, 1962. It was hoped that the longer term contract might result in a more competitive set of quotations and in one firm quoting lower than the others. When the tenders were opened, it was found that the same three firms which had submitted the identical low bids for 1961-62 had again submitted identical low bids in the amount of \$645,264.16. After placing the facts before the combines branch of the Department of Justice, as had been done in previous years, the Department of Public Works obtained treasury board authority to award the contract to the company which offered products manufactured wholly by itself, which offered as part of its tender a bonus type lamp and which had not had the order in the preceding year.

During the course of our examination of departmental records during the past year, we noted, in addition to the above "repeater" case involving incandescent lamps and fluorescent tubes, approximately 100 cases of identical tenders having been received by government departments. In practically all of the instances, which covered a number of product areas, details were furnished by the departments concerned to the combines branch.

We are informed that the combines branch is continuing its practice of scrutinizing and accumulating such evidence in the event that the information "may ultimately become relevant and useful should evidence of collusive practices be disclosed". In the course of reviewing our findings regarding government purchases, we have suggested to officers



of the branch that it might be desirable were all identical tenders received by government departments, crown corporations and other agencies listed each year by the combines branch in the annual report made by the director of investigation and research to the Minister of Justice under section 44 of the Combines investigation Act.

Mr. HENDERSON: Are you referring to paragraph 71?

The CHAIRMAN: Yes.

Mr. HENDERSON: Do you want to deal with paragraph 70 briefly?

The CHAIRMAN: No; we were going to deal with everything concerning the letter and pass paragraph 70 for the time being.

Mr. HENDERSON: Paragraph 70 explains how the Judges Act prohibits the payment of any remuneration to a judge in addition to his salary for any services performed for federal and provincial governments. I then suggest that a living allowance of \$60 a day, which is paid in addition to reimbursement for transportation expenses, may perhaps be regarded as including an element of remuneration, which is contrary to subsection (1) of section 39 of the Judges Act.

I notice in the letter which the minister of Justice has addressed to the chairman that he understands these living allowances are taxable under the Income Tax Act. In point of fact, they are reported I understand, on the T.4 informational slips to the income tax department should the payments exceed \$250 per annum. So, presumably, the judges individually claim expenses against those allowances when they make their personal returns.

The minister goes on to explain the type of expenses with which the judges are faced in connection with their travelling. I can only say, Mr. Chairman, that a per diem allowance of \$60 might commend itself to the members as equalling out of pocket expenses or you might agree with the point of view I have expressed.

The CHAIRMAN: Do any members of the committee wish to make any comments or put any questions in connection with this matter?

Mr. HALES: In paragraph 71, Mr. Henderson, you are just bringing our attention of the existence at this time of a per diem rate of \$60 a day for judges over and above their salary.

Mr. HENDERSON: Over and above their transportation expenses.

Mr. HALES: And the Minister of Justice has brought to our attention these added expenses.

Mr. HENDERSON: Well, he describes the type of expenses with which the judges are faced in travelling around in connection with their work.

Mr. HALES: And you are asking the committee whether we think it is sufficient or whether we should increase it. Is this the situation?

Mr. HENDERSON: Well, sir, I am entirely in the hands of the committee in this connection. I have drawn this matter to your attention because if you feel that \$60 a day includes an element of remuneration it then follows it would be contrary to the Judges Act, which prohibits such remuneration.

Mr. ROCK: Mr. Chairman, I understand that this amount is taxable, and the suggestion is that it should not be taxable as it is an expense. I think this is the whole idea of this matter.

Mr. HALES: That is what I wanted to know.

Mr. HENDERSON: It is treated as remuneration.

Mr. ROCK: Yes, remuneration rather than an expense and, according to the information we have, it is actually an added expense on a judge when he has

to travel away from his own circuit to another area as an arbitrator or something of that nature. Therefore, this is an additional expense incurred by him and, therefore, he is remunerated by a certain amount which, according to what is written in this letter, is taxable.

Mr. HENDERSON: It is regarded as remuneration by the income tax department.

Mr. ROCK: I do not think it should be. However, this is a decision we will have to make.

The CHAIRMAN: This is a question of what recommendation the committee sees fit to make when we make our report on this.

Mr. ROCK: This is the reason for the discussion on this.

The CHAIRMAN: Yes, that is correct.

Mr. MUIR (*Lisgar*): I think the minister justifies the \$60 a day because it is taxable. At least, to me, that is the purport of this letter. Am I correct in saying if it was not taxable perhaps it would be excessive?

Mr. HENDERSON: Neither the minister or I are familiar with how the judges individually may file their expenses. Presumably they file expenses to satisfy the tax department in full, and if they do not reach the \$60 per day they pay income tax on the balance.

The CHAIRMAN: Are there any further comments in this connection?

Mr. HARKNESS: Have you not made a basic contradiction here? The income tax department looks upon this as remuneration but under the Judges Act they are not allowed to have remuneration for this purpose.

Mr. HENDERSON: Yes, that is correct. I did not specify it that way in my note but you are perfectly right.

Mr. HARKNESS: I think there should be a decision made as to whether or not it is remuneration.

Mr. HENDERSON: Precisely.

Mr. HARKNESS: If that was done there would not be that confusion.

Mr. WAHN: If this is remuneration, should not the recommendation of this committee be that a proper amendment be made to permit judges to exceed this type of remuneration: otherwise, there is a clear conflict existing which should be resolved. From what Mr. Henderson says I gather the actual hotel expenses, for example, and the other expenses forms a deduction in the filing of his income tax return. He would show the \$60 as income and set off against that the actual expenses incurred. And, if the actual expenses incurred were less than \$60 a day quite obviously the balance is remuneration, which is contrary to the Judges Act.

Mr. FORBES: In connection with that same point, Mr. Chairman, it says: "while performing these services on behalf of the government of Canada is \$60 per day, which is in addition to the actual out of pocket expenses for transportation, parlour and pullman car accommodation, and taxicabs." So, that is actually income, and he gets his expenses above the \$60.

Mr. HARKNESS: He has to put in his hotel bill. It is to cover hotel bills and other essentials.

The CHAIRMAN: Mr. Forbes, if you look at the third last line you will see the words "living allowance". The \$60 is related to living allowance.

Mr. HENDERSON: It is described as that and, as we know, living allowances are taxable under the Income Tax Act.

Mr. FORBES: Do the judges not put in an itemized account?

Mr. HENDERSON: Not as far as the department of Justice is concerned; but, as far as his income tax return is concerned. I cannot speak to that.

Mr. HALES: Mr. Chairman, surely this is a matter for the income tax department to rule upon in one way or another? I do not think it is our position to make this ruling. The income tax department must rule in many cases in this regard and I think it is a matter for that department to decide whether this is income or expense.

Mr. HENDERSON: The question is whether this is a legal payment, or not.

Mr. HARKNESS: I understand the income tax department has already ruled that this is remuneration and have taxed it accordingly; is that right?

Mr. HENDERSON: That is correct.

Mr. NOWLAN: Anything classified as expense is taxable unless the taxpayer produces vouchers. This is a flat amount and is automatically taxable under the Income Tax Act.

Mr. REGAN: Is a judge's salary completely taxable?

Mr. NOWLAN: Yes.

Mr. HENDERSON: Yes; I do not think there is any doubt about that.

Mr. REGAN: In that event I think this should be taken into consideration as an expense rather than additional income.

Mr. NOWLAN: At one time judges were not taxed at all. Then they were taxed ten per cent. A very few years ago the judges raised great objection in this regard and went to the Supreme Court of Canada stating there was interference with the courts. The situation was cleared up by the passage of legislation and the judges now have to pay taxes just as the rest of us do. It is only within relatively recent years they have been taxed. This situation occurred before your time, but it happened long after I commenced practice. The judges kicked like the devil about the idea of the government interfering with the independence of the judiciary.

Mr. ROCK: At the present time judges are paying taxes on the total amount and, therefore, I feel that possibly this committee should take this added burden into consideration, keeping in mind the fact that they must travel and incur added expenses, and recommend that perhaps this money should not be taxable, but regarded as an expense. I think perhaps we should have legislation in this regard. I feel perhaps this paragraph was included in the report with that in mind.

Mr. HENDERSON: It is my impression from what you have said that you feel this contains an element of remuneration and, therefore, you are probably quite right in suggesting that the best solution would be to recommend an amendment to the judges act specifically in regard to this living allowance payment thereby removing it from question.

Mr. REGAN: Surely judges now receive expense allowances in addition to their salaries to cover the cost of travel while fulfilling their judicial capacity as distinguished from some performance such as the chairman of a conciliation board; is that right?

Mr. HENDERSON: I think judges are entitled to a living allowance. The note states: "for any duty or service, whether judicial or executive, that he may be required to perform for or on behalf of the government of Canada or the government of any province".

Mr. MUIR (*Lisgar*): Actually they are only taxable in respect of the amount that is not expended for the purposes set out; is that right?

Mr. HENDERSON: That would be a logical assumption, Mr. Muir, as a result of the manner in which we assume the income tax department handles this. My question here is, does this or does it not contain an element of remuneration?

Mr. MUIR (*Lisgar*): Anything over and above actual expenses would be remuneration, and I would imagine as such they would be taxed.



Mr. ROCK: Mr. Chairman, the situation may well occur where, as a result of a judge receiving certain remuneration because of the type of arbitration he is conducting, he will be placed in a different income tax bracket and may have to pay more income tax than he receives as a result of performing this service.

Mr. RICARD: That situation occurs in respect of both you and me.

Mr. ROCK: As a result of our \$4,000 increase, from \$8,000 to \$12,000, keeping in mind the contribution to the pension plan, I have been placed in a different income tax bracket and receive only \$144 extra per month, which is not even \$2,000 per year. A judge performing an extra duty of the type we have been discussing may, as a result of some remuneration, be placed in a different tax bracket. It would not be worth while under these circumstances for a judge to sit on these arbitration boards.

Mr. REGAN: Mr. Henderson, as I understand the situation, there is nothing at the present time which prevents payments being made to federal judges by provinces. Judges are serving regularly as chairmen of conciliation boards on behalf of the province and are being paid for their services by the province. I know as a fact that in Nova Scotia county court judges, who are federally paid and federally appointed, do serve on conciliation boards and receive remuneration from that province. Inasmuch as that has already been done on a provincial basis, and inasmuch as judges in many areas of Canada, with few exceptions, are among the only acceptable conciliators, or chairman of conciliation boards available, surely it is in the public interest to change the statutes providing that the federal government may also pay judges remuneration for serving on such boards, in order that their services may continue to be available?

Mr. HARKNESS: According to the statute, when judges receive remuneration from a province for services performed they are acting contrary to the law in so doing?

Mr. REGAN: Does subsection (1) of section 39 of the judges act prohibit payment to a judge, or does it just prohibit payment to a judge by the federal government?

Mr. HENDERSON: The section refers to payments to a judge, and then continues as follows: "—for any duty or service, whether judicial or executive, that he may be required to perform for or on behalf of the government of Canada or the government of any province". That is the wording of the Judges' Act.

Mr. HARKNESS: I take it, Mr. Chairman, that when a judge is performing his judicial duty on circuit he does not receive \$60 per day, but receives only his actual out of pocket expenses. If that is the case, and I think it is, I would think that if the expenses incurred in the performance of other duties were put on the same basis perhaps we would eliminate these difficulties.

Mr. HENDERSON: Yes.

Mr. MUIR (*Lisgar*): In that regard, if judges are merely allowed their actual out of pocket expenses, why would a judge accept a position on a commission or on an investigation?

Mr. HARKNESS: Such a position gives the judge a change from his ordinary routine.

Mr. REGAN: He can pick up some change as well.

The CHAIRMAN: Obviously we require further information in this regard. Mr. Henderson has drawn our attention to what he believes is perhaps an anomaly. Your questions have indicated to me that we require additional information from the Minister of Justice. Perhaps we could deal with item 114,

and if we find we require additional information in that regard, or perhaps answers to our questions from the deputy minister of justice we could ask for such additional information.

Paragraph 114 is found at page 53 of the auditor general's report and deals with identical tenders.

114. *Identical tenders.* In paragraph 77 of last year's report it was brought to notice that the Department of Public Works had called for tenders for the supply of incandescent lamps and fluorescent tubes to meet the needs of various federal buildings throughout Canada during the fiscal year 1961-62 and that, based on the application of unit prices to estimated quantities, identical bids of \$301,191.16 were received from the three companies submitting the lowest complete tenders. This was the third instance of identical bids for lamps during the preceding four years, and the treasury board authorized placing the order with a company other than the one which had held the contract during the two previous fiscal years.

During the year under review the Department of Public Works called for tenders for the supply of incandescent lamps and fluorescent tubes which it was estimated would be required during the two year period commencing April 1, 1962. It was hoped that the longer term contract might result in a more competitive set of quotations and in one firm quoting lower than the others. When the tenders were opened, it was found that the same three firms which had submitted the identical low bids for 1961-62 had again submitted identical low bids in the amount of \$645,264.16. After placing the facts before the combines branch of the Department of Justice, as had been done in previous years, the Department of Public Works obtained treasury board authority to award the contract to the company which offered products manufactured wholly by itself, which offered as part of its tender a bonus type lamp and which had not had the order in the preceding year.

During the course of our examination of departmental records during the past year, we noted, in addition to the above "repeater" case involving incandescent lamps and fluorescent tubes, approximately 100 cases of identical tenders having been received by government departments. In practically all of the instances, which covered a number of product areas, details were furnished by the departments concerned to the combines branch.

We are informed that the combines branch is continuing its practice of scrutinizing and accumulating such evidence in the event that the information "may ultimately become relevant and useful should evidence of collusive practices be disclosed". In the course of reviewing our findings regarding government purchases, we have suggested to officers of the Branch that it might be desirable were all identical tenders received by government departments, crown corporations and other agencies listed each year by the combines branch in the annual report made by the director of investigation and research to the minister of justice under section 44 of the Combines Investigation Act.

The CHAIRMAN: I do not know whether you have had time to read Mr. Henry's letter, the director under the Combines Investigation Act, but it represents a reply to a question regarding his duties in respect of identical tenders. This letter is responsive to a question raised in the Auditor General's report. Perhaps we could hear from Mr. Henderson in this regard before we ask questions.

Mr. HENDERSON: This reference has been brought forward from the previous year. This question first arose, as stated in this note, when we observed that,

based on an application of the unit price to estimated quantities, identical bids of \$301,191.16 were received from three companies submitting the lowest complete tenders to the Department of Public Works for the supply of incandescent lamps and fluorescent tubes to meet departmental needs during the fiscal year 1961-62.

This had been the third instance of identical bids for lamps during the preceding four years. During the year that you are now studying, that is, 1961-1962, the department thought that it might be able to obtain a more competitive set of quotations and thus perhaps avoid receiving identical tenders. So it invited bids for a two-year supply of these requirements; that is for 1961-1962, and 1962-1963. But when the tenders were opened, it was found that the same three firms which had submitted identical low bids before, had again submitted identical ones, and again in the same amount; namely, \$645,264.16.

I had discussed this the previous year with the director of the combines branch, and I might say that I obtained what I felt to be a clear understanding of the problems with which he was faced. However, after checking through other department records as to the frequency of this practice, I noted that in addition to the case, that is, the repeater case of incandescent lamps and fluorescent tubes, there were something like 100 other cases of identical tenders having been received by government departments across a number of product areas. It seems to me that in the report which Mr. Henry makes under the Combines Act, that it was a worth-while suggestion to make at in might be desirable if all identical tenders which are received and are reported by government departments to the combines branch were listed and thus made public, in the annual report that the director of investigation and research renders to the minister of Justice.

Mr. Henry, the director of investigation and research addressed a letter to me on April 25, which is the one which the Minister of Justice has forwarded to the Chairman, and which you now have. You will see that he sums up his views on my comments. You will appreciate that this letter was written on April 25, 1963 which was four or five months after the report which you now have before you had been tabled in the house. He takes the view that to publish such identical tenders in any form, including the one I had suggested, would be a matter for government rather than for him to decide.

Beyond that point I have not discussed the matter further. I might say that I did not see the letter from the Minister of Justice to the Chairman until this morning. I knew that one had been written, but I had not been furnished with a copy. But I am glad this has been sent to you because I think it adds to the information on this subject.

Again, this is a case where I am in your hands. This is how my officers and I see this problem. I must say to you that in looking across the whole field of government purchasing, which lead to the accumulation of the some hundred odd cases, I was struck by the—shall we say—product areas in which identical tenders always seemed to occur. I know from my own experience over the years in having had a hand on the other side in submitting tenders, that the whole area is one of very keen competition in which people fight hard to land an order from the government of Canada. I thought it odd that there should be certain other areas where the bids seemed to keep coming in on an identical tender basis. This is however a personal opinion based on experience.

Mr. Henry sets out in his letter very clearly the problems with which he is faced. He asked government departments to send particulars of any identical tenders they received to the combines branch, and he studies them with a view to possible follow-up action. But the matter which really brought this to a head was the case of these lamps.

Mr. HALES: What are these product areas, Mr. Henderson?



Mr. HENDERSON: I cannot be precise. I did not come prepared this morning briefed on them. I am afraid it is in the other book which I did not bring. I did not know we were going to jump to item 114 this morning.

Mr. NOWLAN: This refers to 1960-61. Since then there was a tremendous upset in the United States with the resignation of the president of a certain huge electrical company, and the resignation of most of the officers, and a complete change in their pattern because of the fact that they had broken the trust laws of the United States.

Mr. HENDERSON: Yes.

Mr. NOWLAN: I wonder if the same thing would turn up again in the bids from subsidiaries of these corporations which have been trafficking in the United States, and where they have said publicly—or admitted that they were carrying on this practice, but discontinued it in the latter part of 1962. I think Mr. Henry should take a careful look at these companies next year.

Mr. HENDERSON: I shall be dealing with this matter in my forthcoming report to the house which will be tabled next January. It has been largely a question of bringing the matter up to date. I felt this was a matter which the house or the committee might wish to consider.

Mr. NOWLAN: I know that in Nova Scotia we have a board of public utilities which deals with the price of milk. We have four dairies there bidding to supply milk for the armed forces in Nova Scotia. Under the law they have to put in identical bids, and there is nothing you can do about it except to allocate them every three months, when the board sees to it that each company gets a crack at it, providing that they perform the service and keep up the quality.

Mr. HARKNESS: The areas where this occurs, I presume, are those in which you have a very limited number of manufacturers of a commodity so that you only get three or four bids in. Is that the situation?

Mr. HENDERSON: Not always so, but it is in many cases. In the field in question there were probably just three or four manufacturers. One field in which this matter has arisen during the past year has been in the case of cement.

I have here the text of my comments in my forthcoming report to the house, and I think the members should know that since the close of the year on March 31, 1963, treasury board has been interesting itself very closely in this situation, and it has expressed concern to the department that equally low bids in respect of a number of provinces are frequently coming to its attention. It has indicated an intent to give further consideration to this situation. This is a development which has occurred over the past few months.

Mr. NOWLAN: It occurred last year. We have had identical bids from the cement companies. We did our best to do something about them but contracts were awarded to some firms that had not even put up a bid at all. We were hoping that this would break this up.

Mr. MUIR (*Lisgar*): Mr. Henderson, do you not think it would be reasonable to assume that these large bids from three different companies could be regarded with suspicion? There must have been some discussion.

Mr. HENDERSON: That is the way the departmental officials and I looked at it.

Mr. REGAN: If I might add one word to it, I would imagine this question arises out of the fact that Mr. Henry's letter states that he does not think that this is suspicious. Perhaps it would be useful to have Mr. Henry explain to the committee why he feels this is not suspicious, because with absolutely no

background knowledge of these matters at all it immediately seems to me that unless there is some reason why it is not suspicious, it should be.

Mr. HENDERSON: That is why I raised it, Mr. Regan.

Mr. WAHN: If the product in question is a product which is standard and which appears on a published price list, there would be nothing suspicious or no indication of collusion merely because a large tender came out to exactly the same price to the last cent. In other words, being specific, if these electric light bulbs are quoted on price lists published by the companies in question, those companies might very well, as a matter of policy and without violation of any law in existence at the present time, decide that it is in their interest not to cut prices but rather to quote the government of Canada on the basis of their published price list.

Now, in fact it is almost inevitable that substantial companies would adopt that policy because, as I understand the government's purchasing policy, they call for tenders and then they notify the companies who have tendered of the name of the successful tenderer and the price at which the tender has been granted. So what would happen if you had three or four companies all supplying standard products, all with published price lists, and one of them decides it wants this big government order? He will cut prices by 10 per cent. He gets the order, and immediately the government turns around and notifies every supplier of the price at which that tenderer has received the order. A month later another tender comes up, and all the tenderers know the price at which the last tender was obtained, so one of them decides to cut prices by 15 per cent. You then get in these circumstances prices lowered progressively to the point where they are uneconomical. Any businessman knows that this will be inevitable. Therefore, instead of doing that—and it is not in the interest of the government of Canada, as far as I see it—instead of following that self-defeating course, businessmen, without any collusion but with exercising a degree of common sense, say, “we will stick with our published price list and necessarily if the product is a standard product the published price lists must be identical”. If the product is standard it will be suicidal for one company to come up with a higher published price than the other, so the published price lists, you will find, will be identical to the last cent. It is merely a question of multiplying the quantity by the published price and again you will come out with the identical tender price within a cent or two.

I think that in these circumstances and in view of the method which the government of Canada follows in obtaining tenders and in publicizing the price of the successful tenderer, it is inevitable that this should happen. I merely question whether any useful purpose is achieved by publishing identical price lists. I see no objection to doing that if a purpose is served, but what purpose is served? I do not think it will persuade the companies involved to adopt a policy of progressively cutting their published prices because this would not be in their interest, nor would it be in the interest of industry, nor in the long run in the interest of the government of Canada itself. I think it would perhaps not be harmful, but it would serve no useful purpose. That is the explanation of why these tenders are identical to the last cent and will continue to be so without any illegal collusion on the part of the companies concerned if it has to do with a standard product and if it is a product which is an item on a published price list.

Mr. McMILLAN: I tend to agree with that. I know one industry that was prosecuted and fined under the act, and still they submit three or four identical tenders to the government. You know that to be so, do you not?

Mr. HENDERSON: I cannot recollect the case you speak of. I am also conscious and know from my observations of the government's purchasing that as I have said in many other areas competition is very free and very keen,

and in many cases prices are cut to the bone for a large purchaser such as the government because of the prestige which they think they will obtain by being one of its principal suppliers. Such companies may not be in the fortunate position of large companies who have printed price lists and so forth.

Mr. REGAN: I must say, Mr. Chairman, that if what Mr. Wahn says means that he approves of this practice he has outlined, I disagree with him entirely because what he has said is a repudiation of the advantages of the system of buying on a tendering basis. Surely it has been for many years a long established custom of people in business with commodities to sell that they tender not only in government contracts but sometimes in private business; that they cut their prices on large sales in order to get the sale. To suggest that the sales to the government of the amounts that the government regularly requires should be at the same list price at which small quantities are quoted I think is to do a very serious disservice to the taxpayers of Canada. Taxpayers are entitled to have the government purchase at the lowest possible price, and if these companies have the opportunity to make such large sales, then they must cut below the list price. The very system as outlined by Mr. Wahn is to me the essence of competitive tendering, that the price should be cut down to the point where they make a very small profit and not the standard profit. This may not be in the interest or for the greatest profit of the company, but I certainly believe that the tendering system as opposed to any other method by which a government can purchase, and I am particularly opposed to the method by which government operated before the days of the tendering system, is highly preferable. I want to say that I strongly support the stand of the Auditor General in this matter. At least the names of those submitting identical tenders should be published and, in the absence of any very, very clear explanation, such as was the case in respect of nails mentioned by Mr. McLean, if three submit identical tenders, that in itself is suspicious. If they want to maintain the orders on a tender basis, then it is unthinkable that three or more should be submitted on the basis of published list prices; if they are doing that, it should be remedied by expanding the area to include some of the smaller companies which are so eager to get the business that they would be willing to cut prices.

Mr. GRAY: You said that 100 cases came to your attention?

Mr. HENDERSON: Yes. In order to determine the extent to which this practice existed, we took pains in this particular year to discuss the matter specifically with the purchasing agents of the different departments. There were approximately 100 cases of identical tenders which had been received.

Mr. GRAY: Out of how many tenders?

Mr. HENDERSON: I do not have that figure but obviously it would be a small percentage of the total.

Mr. GRAY: What about the dollar value?

Mr. HENDERSON: I do not think I have that figure. I may have it in my notes; it would be a small percentage. This is not a predominant factor, but it is something which I thought I should bring to your attention.

Mr. GRAY: Do you consider this to be a growing problem and one which is travelling along a road which might lead to a problem of major proportions?

Mr. HENDERSON: It is one which has received the attention of the treasury board, as Mr. Nowlan pointed out, and it is continuing to receive the attention of treasury board. That, I feel, is reassuring.

Mr. GRAY: I believe Mr. Hales asked you about the product area?



Mr. HENDERSON: I mentioned cement, which is one of them. Unfortunately, I do not have the others in my notes. I did not think we would reach this item today.

The CHAIRMAN: We called this item out of sequence, because it was referred to in the letter.

Mr. GRAY: I wonder whether Mr. Henderson would be in a position to submit this list to us at a later date?

Mr. HENDERSON: I would like to take that into consideration, because frankly at this stage I do not know what purpose it might serve to name the areas. I certainly would not wish to mention names, because it has been my practice to avoid doing so in my reports.

Mr. GRAY: Do you feel there is proper liaison between the departments and the branch headed by Mr. Henry in respect of reporting these things?

Mr. HENDERSON: Yes, I do. I think it is a standing instruction of Mr. Henry that details are to be forwarded to him. It might be useful to have Mr. Henry here to speak to this matter, because he and his associates are well posted on the subject.

Mr. GRAY: I think that is a very good idea. If a motion is necessary for that purpose, Mr. Chairman, I would be prepared to make one.

The CHAIRMAN: If you wish to make a motion, you may do so after we complete discussion on this subject.

Mr. HARKNESS: In my view it is not reasonable that the government should pay the same price as everybody else. In other words, the government should not pay the ordinary list price when they make purchases in very large quantities because the cost to the company, in that case, in making the sale is very much less. If the government buys a million electric light bulbs, the cost to the company making them is considerably less than if they sell one million bulbs to 1,000 other customers in 1,000 separate lots. It is only reasonable, therefore, I think, that the government should expect to get and should get a lower price than the ordinary list price.

Mr. WAHN: May I answer that, because I obviously have not made myself clear? I think it will be found, if one looks at this specific example, that the tender price was much lower than the ordinary price paid by an individual buying a small quantity. The price lists will show a list price less a number of discounts.

Mr. HENDERSON: Quantity discounts.

Mr. WAHN: Yes, quantity discounts. The government will get the maximum discount, but because it is a published price list the discount schedules will be the same for all companies in the case of standard products. The government will obtain the best possible price, and certainly a much lower price than I would if I were buying a smaller quantity.

Mr. HENDERSON: I think you can rely on the purchasing agents of the departments to see that they get all the quantity discounts to which the size of their order entitles them.

Mr. HARKNESS: Nobody but the government would buy anything like the quantity. They are the only people who would buy these enormous quantities.

Mr. WAHN: There would be a list price and varying discounts based on quantity and on the type of purchaser. A national distributor might get a discount and a jobber or wholesaler might get another discount. The government, being a very large purchaser, might get the same as the wholesaler or the jobber, or even a higher discount. But these discounts would all be similar.

My remarks were directed towards explaining why it is possible to have identical tender prices without any illegal collusion on the part of the com-

panies. If they decide as a matter of business policy that they are giving sufficiently generous discounts to the government; that they are going to adhere to their price lists and not undercut, one is bound to end up with the same tender price from all companies supplying standard products; but it would not be the price I would pay or the price Mr. Harkness would pay if he were ordering a small quantity. It would be the best price granted by those companies and substantially lower than the retail price.

Mr. ROCK: Mr. Henderson, were the companies who were invited to tender manufacturing companies or wholesalers?

Mr. HENDERSON: These were the manufacturers of the articles mentioned.

Mr. ROCK: If any manufacturers have a combine, one can certainly say it is true of the electrical manufacturers of light bulbs. I have been in the hardware business for 15 years and I know that every time there has been a price change all the companies have had the same price list change at the same time. Every time there was an increase in price, every one of the companies came up with the same type of price list a few days later. I know for a fact that many of the wholesalers have lost their franchise because they have cut prices. When the manufacturing companies find out that they have cut prices, they lose their franchise. I can say this also: there is one firm from whom I have been buying, and the only way in which they can cut their price is by giving me some free bulbs after I have purchased a certain number. Otherwise, if the manufacturers find out, the wholesalers will lose their franchise too. If there is any combine, definitely this is it.

I know this committee is not here to judge and it is not here to state whether there should be an investigation made and whether the offenders should be taken to court, but I feel this list should be published. This is my opinion. I feel there is a combine here. I can even go further and tell you the same thing in connection with the paint companies. The same position exists with the paint companies as with the electrical companies manufacturing light bulbs.

The CHAIRMAN: Mr. Gray has a motion.

It is moved by Mr. Gray, seconded by Mr. Rock, that Mr. D. W. H. Henry, director of investigation research under the Combines Investigation Act be called to appear before this committee to testify regarding the matters raised by paragraph 114 of the Auditor General's report for the fiscal year ended March 31, 1962, and Mr. Henry's letter dated April 25, 1963, addressed to the Auditor General.

Is there any discussion, or are you ready for the motion?

Mr. SOUTHAM: Before you put the motion, I was interrupted in my reading further on under section 114 which dealt with identical tenders, where it states 100 cases of identical tenders have been received by various government departments, and these departments, I suppose, in the interest of good economy, the general public and the taxpayer, have reported these to the combines investigation branch who, in turn, have sent a report to the Department of Justice, dealing with this sort of matter.

Could the Auditor General advise whether he has received any word in this connection?

Mr. HENDERSON: The only report I have received in this connection is the letter from Mr. Henry, which you have before you.

Mr. SOUTHAM: I am sorry, Mr. Henderson, but I was called out of the meeting at that time.

Mr. HENDERSON: Mr. Henry's letter is dated April 25 this year; my report was made public in January this year, so it was after.

Mr. SOUTHAM: It is quite evident to me that the departments affected are doing their best to protect the taxpayer.

Mr. HENDERSON: What gave rise to Mr. Henry's letter was the fact he was thanking me for one I wrote to him.

We had had various discussions, and he was good enough to furnish me with some material from the United States, some papers written by some Harvard professors on the subject. I read these with a great deal of interest. I also noted that the practice in the United States had been to make identical tenders public.

By way of information, I dropped him a line and thanked him for sending me this material. I commented generally that my view remained unchanged, or words to that effect. That is why he was good enough to write this letter to me on April 25th.

The CHAIRMAN: Are you ready for the question?

Mr. Gray, I have taken the liberty, with your approval, to change the word "summon" to "call".

Mr. GRAY: Yes, I believe that is the appropriate word.

The CHAIRMAN: We do not issue summonses but invite people to appear before us.

Mr. HALES: Could we change the date of that motion and make it more current, March 31, 1963?

The CHAIRMAN: I do not know that we could do that in view of the fact we have our terms of reference which limit us to the Auditor General's report. While he has, for the purpose of illustrating a point, given us a little advanced notice of what might be appearing, I think we might be getting above our terms of reference.

The CHAIRMAN: All in favour of the motion? Opposed? I declare the motion carried.

Motion agreed to.

The CHAIRMAN: May we now revert to item number 70.

70. *Examination of claims under the winter works program.* In last year's report (paragraph 65) attention was drawn to the fact that, unlike most federal-provincial cost-sharing agreements, the agreements under which the federal government reimburses municipalities, through their provincial governments, for one-half of the direct payroll costs incurred on municipal winter works projects contained no specific provision for examination by federal officers of provincial or municipal records supporting the claims, the agreements providing for audit of the claims only by provincial auditors.

Officers of the Department of Labour have advised us that they will recommend the incorporation of a provision for examination by federal officers into future agreements submitted for consideration of the provinces and that, in the meantime, the provincial governments have been requested to make available for examination by the Auditor General, records pertaining to the 1962-63 program.

Mr. HENDERSON: This one is quite short. The purpose of this note is to deal with examination of claims under the winter works program no specific provision existed in winter works program projects for examination by federal officers of provincial or municipal records supporting provincial or municipal claims, this is unlike most federal-provincial cost sharing agreements. However, I can advise the members that this since has been taken care of in connection with the 1963-64 program.



The letter agreement which was signed by the Minister of Labour and addressed to the provincial premiers on June 17, 1963, outlining the terms of the 1963-64 program, reads as follows:

The provinces will also permit access by authorized officials of Canada at all convenient times to such records, documents and files of the provinces and its municipalities directly or indirectly relating to authorized projects as may be deemed necessary for audit of direct payroll costs claimed under this project.

Therefore, I am pleased to advise you this has been taken care of.

Shall we now proceed to item 72?

The CHAIRMAN: Yes, we will deal at this time with item 72.

72. *Unemployment insurance administration.* Under the provisions of the Unemployment Insurance Act, 1955, c.50, administrative expenses of the unemployment insurance commission are paid out of annual parliamentary appropriations (Vote 188, 1961-62). These expenses amounted to \$45,935,000 for 1961-62, compared with \$42,112,000 for the preceding year. The increase of \$3,823,000 was largely caused by upward salary adjustments and the employment of more full-time staff. The establishment approved for the commission at March 31, 1962 was 9,135 compared to 8,632 at the close of the previous year.

In our 1960 report we referred at some length to the broader coverage which had been effected over the years and the resulting decreasing emphasis on insurance principles recognized when the fund was first established. This situation was examined by the public account committee in 1961. After viewing with alarm the sharp reduction in the balance at the credit of the fund at that time, the committee recommended in its fifth report, 1961 (paragraph 80):

that the entire matter undergo immediate and careful study and that action be taken to re-establish and maintain the Fund on a basis consistent with insurance principles.

A special committee of inquiry was established by the governor in council on July 17, 1961 to undertake a thorough review and analysis of the provisions of the Unemployment Insurance Act and its relation to other social security programs and to inquire into and report on measures needed to deal with seasonal unemployment and the means of correcting any abuses or deficiencies that may be found to exist. The Committee has not yet made its report.

During the fiscal year 1960-61 the commission increased its investigation-enforcement staff by over 50 per cent, to a total of 122. Penalties imposed on claimants in 1960-61 for false or misleading statements numbered 30,044 compared to 16,851 in the preceding year. No further increases were made in this staff in 1961-62; however, the number of investigations was increased by 57.4 per cent. Penalties imposed on claimants for false or misleading statements during the past year totalled 22,650. This is 24.6 per cent less than the previous year despite the fact that total initial claims allowed during 1961-62 were only 11.3 per cent less than the previous year.

A firm of management consultants was engaged by the commission during the past year to produce time standards for work measurement, to develop a program of determining staff requirements for non-measurable activities, to develop a program for measuring performance efficiency, to advise on the role and size of the commission's standards

and methods division and to provide a training program for members of that division. Except for the provisions of the training program, the assignment has been completed and reported upon by the consultants. Most of their recommendations are understood to be in course of implementation by the commission.

A further recommendation by the public accounts committee in its fifth report, 1961 (paragraph 81) was:

that the Auditor General give consideration to the advisability of increasing the scope of his examination of unemployment insurance fund transactions in the field.

In this connection, we reported last year that a moderate increase in our field audit work had been carried out. It has not, however, been possible to extend this increase in the scope of our work further during the year under review by reason of the staff shortage referred to in paragraphs 8 and 9 of this report.

It has continued to be our practice to report to the chairman of the commission on each of the examinations we have made, and prompt attention has been given to all observations we have raised, with corrective action being taken where called for. Briefly, the examinations are designed to test the adequacy of internal control over the collection of and accounting for contributions and other income, the payment of benefits and the recording and collection of overpayments. The extent to which adjudication of claims complies with the provisions of the act and regulations is likewise examined. On the other hand, verification of statements made by claimants, employers and other members of the public, whether by direct interrogation or other means, is carried out by the commission's own investigation-enforcement staff and no attempt is made by the audit office to verify the accuracy or completeness of this information beyond examining the Commission's records in its field offices and questioning apparent deficiencies in these records.

The transactions of the unemployment insurance fund, administered by the commission, are reported upon in paragraph 200.

Mr. HENDERSON: Paragraph 72 is a descriptive one, outlining the changes brought to unemployment insurance by the unemployment insurance commission which, therefore, is distinct from the transactions of the unemployment insurance fund which you will be studying separately under paragraph 200.

You will see from this note that the administrative expenses of the commission paid out of annual provincial appropriation totalled around \$46 million in 1961-62 and consisted of an approved establishment for this organization totalling 9,135 employees on March 31, 1962.

You will also note during that year the commission engaged a firm of management consultants to produce time standards for work measurement, to develop a program of determining staff requirements for non-measurable activities and so on. It is our understanding that most of the recommendations of these consultants have been implemented or will be soon. Members of this committee perhaps will be interested to recall that it was the public accounts committee which first drew attention in 1960 and again in 1961 to the decreasing emphasis being placed on insurance principles in administering unemployment insurance, and one of the commissioners and several of its senior officers were called as witnesses before the committee in 1961. I think it was within a few weeks of the committee filing its report in 1961 that the government formed the special committee of inquiry, known as the Gill

committee. In 1961 the public accounts committee asked me to try to increase the scope of my examination of unemployment insurance fund transactions in the field. As I say at page 27, it was not possible to extend this coverage further during the year you have under examination, but I can say to you that we have effected a small increase in our test checks during 1962-63. I shall be referring to this in my forthcoming 1963 report.

You may possibly have some questions regarding the unemployment insurance administration, and Mr. Douglas, my audit supervisor in charge of this work, is here and would be pleased to deal with any questions.

The CHAIRMAN: Are there any comments or questions in respect of this paragraph?

Mr. McMILLAN: We will be dealing with the fund itself under paragraph 200; is that right?

Mr. HENDERSON: Yes, we will be dealing with the fund under paragraph 200.

Mr. McMILLAN: We are not considering the fund itself at this point.

Mr. HENDERSON: No, and I suggest we stay with the report and pick that up as we move along.

The CHAIRMAN: We will move now to paragraph 73.

73. *National Defence administrative regulations and procedures.* In its fifth report 1961 (paragraph 53) the standing committee on public accounts observed that on the basis of its experience in prior years armed forces expenditures and the evidence given at the meetings held in the calendar year 1961, the committee had noted with concern the continuing tendency on the part of some branches of the armed services toward incurring ill-considered and wasteful expenditures. The committee then recommended:

that the Minister of National Defence enquire into this situation with a view to assuring that there is an appropriate improvement in administrative regulations and procedures.

The foregoing observation was made by the committee after considering matters bearing on the Department of National Defence, drawn to attention in our 1960 report.

The Minister of National Defence was prompt in issuing a directive to the chief of staff stressing the importance of good administrative practices throughout the three services and requesting that they examine the observations made by the committee and make any necessary changes in regulations and procedures to give effect to the views of the committee.

In last year's report (paragraph 66) it was noted that travelling and removal expenses of members of the armed forces are paid in accordance with provisions contained in Queen's regulations and orders, rather than under the executive regulations that are applicable to the civilian departments. It was stated that, over the years, some of the regulations have been regarded as producing results that were unsatisfactory from the audit point of view, and in each such case it has been our practice to draw the department's attention to the matter in order that appropriate remedial action might be taken. It was further stated last year that, in general, such action had been prompt; however, two instances were cited where, in the opinion of the audit office, the regulations seemed to require some amendment.

In one of these instances the regulations were amended during the year under review on a trial basis. In the other, the department con-



tinued to study ways and means of overcoming the difficulty in question. This difficulty arises when servicemen are permitted to use personally-owned automobiles to transport themselves and their dependents to new places of duty and the regulations, instead of providing for reimbursement of the actual cost, allow claims to be made for amounts equivalent to the calculated cost of the journeys had they been made by means of public transportation facilities. During our test examination of 1961-62 accounts, overpayments continued to be noted and recovery action was taken by the department in these cases.

In 1960, following comments in the 1958 report regarding the high cost of local moves of furniture and effects of servicemen, the governing departmental regulation was amended to provide a fixed allowance of \$75 for moves in the same vicinity. However, the amended regulation restricts the application of the \$75 allowance to instances where a move results from a serviceman, while remaining with the same unit, being ordered to occupy or vacate a married quarter or to move from one married quarter to another. In instances where a serviceman is required to move as a result of a posting or transfer from one duty location to another, even though it may be in the same vicinity, his full moving costs are paid, including packing and unpacking, as allowed in the case of a long distance move. In the course of a test-check of the 1961-62 accounts, a case was noted where nine servicemen were transferred between military units situated some 20 miles apart and full moving costs were allowed, ranging from \$154 to \$390. It would be preferable were all local moves treated on the same basis regardless of the reasons for them, and were "local moves" defined on the basis of distance without regard to municipal boundaries.

Mr. HENDERSON: Paragraph 73 has reference to the national defence administration regulations and procedures. Our examination in this regard requires a close and continuing check as of the regulations and the changes which are being made to those regulations.

Too frequently, I may say, it does appear as though people in the forces are seeking to take advantage of technicalities, or loopholes in the multitudinous regulations and, as a consequence, more regulations and amendments to regulations have to be made. An example is the situation surrounding the fixed allowance of \$75 for moves in the same vicinity. Of course, the administration of regulations of the size required here is naturally a costly business. It is the standard practice of the audit office to draw cases of infractions of the regulations involving ill-considered or wasteful expenditures to the attention of the deputy minister of national defence and his principal advisers. I can assure you that these officers are prompt in giving such cases attention even though the remedial action is often slow, and, as you will have observed in a number of cases, sometimes they remain uncorrected for long periods.

Mr. Miller, my supervisor in charge of our national defence work, is with me today and we are in a position to deal with any questions you may have.

I would say that paragraph 73 is fairly general in its approach. We did have discussions in this regard in 1961, as I mention at the top of page 28, and the Minister of National Defence was prompt in issuing a directive to the chiefs of staff at that time stressing the importance of good administrative practices throughout the three services, and asking that they examine the observations made by the committee and make any necessary changes in the regulations and procedures to give effect to the views of the committee. I think this was done within three or four days of the publication of the committee's report of 1961 and certainly had a very good effect.

You might, in viewing these, want to concentrate on paragraph 74, the next one, having to do with "reimbursement to servicemen for lease termination payments."

The CHAIRMAN: Are there any questions or comments on paragraph 73? If not, let us now proceed to paragraph 74.

74. Reimbursement to servicemen for lease termination payments.

Comments regarding these outlays by the Department of National Defence were made in paragraph 56 of 1960 report where it was noted that reimbursement was made up to a maximum of three months' rent. After considering the matter at some length in the course of its 1961 meetings, the standing committee on public accounts included the following observations in its fifth report, 1961 (paragraphs 51 and 52):

The committee is concerned at the large amount—approximately \$500,000—that is spent annually by the Department of National Defence in reimbursing, in amounts of up to three months' rent, members of the forces who are required to terminate their leases for housing accommodation.

The committee was informed that, although the circumstances might not be identical, the lease form used by officers of the R.C.M.P. provides for only a 30-day termination clause. Having this in mind, and believing that the situation with regard rental accommodation has improved significantly in recent years, the committee recommends,

that the maximum period with respect to which reimbursement be made to members of the forces, in the circumstances mentioned, be reduced to the equivalent of one month's rent in future."

No change has yet been made in the governing regulation, and the general practice has continued to be to make reimbursement on the basis of the permissible maximum of three months' rent.

During the year under review we drew the attention of the Department to a number of cases where, had reasonable foresight been used by the administrative officers and servicemen concerned, savings to the department would have resulted, for example:

- (1) A number of instances were noted where servicemen were ordered into departmental houses shortly after they had signed leases for rented accommodation and, in a few cases, even before they took occupation of the leased accommodation (in one of the latter cases it cost the department \$351 for termination of the lease).
- (2) Several cases were noted where servicemen had received some weeks' notice of impending postings, to other units and, simply because they had failed to notify their landlords promptly, the full three months' rent liability had to be paid and reimbursement was made accordingly.
- (3) Two instances were observed where leases were signed the day after the units had been notified of postings, and yet reimbursement of three months' rent was made in the usual way (amounting to \$330 in one case and \$210 in the other).

In another case, an officer, upon transfer from Ottawa, made an arrangement with a fellow officer whereby the latter, as a sub-

lessee, accepted an assignment of the lease (which had about a year to run) in consideration of the payment of \$345, equal to three months' rent. The lessee then claimed and received reimbursement of the \$345 under the lease liability regulation, which had the effect of providing the sub-lessee with three months' free rent. The department was questioned regarding the propriety of the payment and the matter is still under consideration.

Mr. HENDERSON: This situation with regard to reimbursement to servicemen for lease termination payments was entered upon originally in 1960; and in 1961 the public accounts committee recommended that the maximum period with respect to reimbursement be reduced to the equivalent of one month's rent in future instead of allowing the practice for three months' rent as presently followed. Nothing has been done regarding this recommendation of the committee. And I might add that no change has been made in the regulations either during the last fiscal year on which I shall be reporting shortly, namely that ending March 31, 1963; and the situation is still not remedied.

In my opinion, this element of three months provision constitutes a waste of public money which could be stopped if the committee's recommendations were adopted. I hope that committee members will continue to support our stand here and reiterate the recommendation which this committee made in 1961.

You will observe that the R.C.M.P., for example, only have a 30-day termination clause.

Mr. RYAN: Might I ask if the legal officers of the services could not give more time to the making of these leases, for instance, and stipulate in the original lease that there will be only a 30-day payment, because this is a bad leakage.

Mr. HENDERSON: Mr. Millar might speak to this.

Mr. B. A. MILLAR (*Audit Director, Auditor General's Office*): The department is in the process of putting out information about this. It has not been published yet, but it is a proposed order to commanding officers to give assistance to personnel coming in to new postings having regard to local conditions where they are on leases in the area.

Mr. RYAN: I suppose another move might be to publicize or make a regulation that there would be no such payment made, so that the landlords across the country would know about it. It is somewhat unfair in the first instance, I submit.

Mr. HALES: Referring to section (2) on page 29, why would the Department of National Defence feel obligated to pay three months' rent liability when a serviceman has failed to notify the landlord promptly? It was apparently the fault of the servicemen who failed to notify the landlord, yet the department pays the liability. Why would the department do that?

Mr. MILLAR: In regard to those three types of cases we stated it to be a reasonable act of foresight. The department made a clear investigation of all these cases and as a result of our observations a letter to all commands was dispatched in April of 1962 pointing out the possibility of abuses and lease liability claims and suggesting increased care be taken at the unit level.

Mr. HALES: That does not answer the question. Why did the Department of National Defence pay this money when they really had no right to do it? If a serviceman fails to give notice, it is his fault and his responsibility, not the responsibility of the department.



Mr. MILLAR: I think the answer to that would be that there has been a lack of leadership at the unit level, and the department is now trying to overcome that.

Mr. HALES: But we spoke about this sort of thing back in 1960 or 1961 when the Auditor General brought it to our attention.

Mr. REGAN: Mr. Chairman, I would agree with the earlier speakers that there should be more supervision and leadership given at the unit level to make sure as early as possible that the individual serviceman gets his notice as early as he can and thus minimizes the amount that actually has to be paid. Having said that, however, let me say that I for one would be completely opposed to any move to establish an absolute minimum of one month's rent to be paid by the department in the future because of the fact that in many areas this would become a hardship for the individual soldier, sailor and airman.

I am thinking particularly of my home area of Halifax where we have a great number of naval personnel and I know that because of the lease system that exists in the city of Halifax where housing has always been at a problem there would be difficulty for many servicemen in terminating their leases on the basis of one month's payment, and those servicemen might have therefore to dip into their own pockets to pay some extra money in order to terminate a lease. At a time when we are having a great deal of difficulty in attracting and keeping fine young men in our navy, I think it would be a very retrogressive and unfortunate step to make life more difficult for these people from a financial point of view.

Mr. ROCK: I completely agree with Mr. Regan. I would just like to add that it will also cause difficulty for the servicemen to obtain lodgings in different areas once they move from one area to another if we limit this to one month. I would say a three months' limit should remain as in the past. If a serviceman knows beforehand that he has to leave within two months, he can give the notice and pay rent for the two months and in the third month the lodgings might already be rented to someone else and no payment would have to be made. Different situations crop up in cases such as this. I think the three months' limit should remain.

Mr. RYAN: Could I ask how much notice is usually given to a member of the armed forces before he has to leave? I know there have been cases where hardly any time was given and other cases where a serviceman would know long beforehand, but what would the average time be? Would he be given a month's notice or ten days' notice by his officer that he must move?

Mr. MILLAR: I do not have the exact time. You mean notification of posting? I think it would be at least 90 days but I do not know the exact figure.

Mr. RYAN: He usually gets 90 days' notice?

Mr. MILLAR: Sufficient time to cancel the lease and make other arrangements.

Mr. McMILLAN: These leases are on a purely individual basis. If, as they say, housing accommodation is at a premium, why would not the department itself rent this accommodation and arrange for transfer of tenants?

Mr. HENDERSON: I would doubt whether the department would want to become involved in the business of leasing premises to put its men into. I do not know whether Mr. Harkness has a comment on this.

Mr. HARKNESS: You would find there would be all kinds of complaints from real estate agents and others who are engaged in this business, if you had the department going into what amounted to the real estate rental business. In addition, you would have all kinds of other complications.

Mr. SOUTHAM: I think the committee is serious in its approach to this problem. We have been told there is a certain amount of leak in this. I think it boils down to the Department of National Defence itself. I think that department should instruct the members of the armed forces in every case in respect of what are the regulations; that is, if there should be a three months grace in giving notice of termination, they should be made aware of this, and the movement of personnel should be regulated within the ranks as practicably as possible to eliminate the possibility of short notice. I believe this is where a lot of the abuse comes in. Members themselves may feel it does not make any difference, and they might get a little careless. I think the instructions should be made explicit to the members of the armed forces who are, you might say, in the nature of nomads, moving from here to here; this is part of the over-all problem.

Mr. HENDERSON: We have encountered still more cases during the year on which I will be reporting shortly—1963—under this heading.

Mr. GRAY: I think we should recognize that although it is necessary for the Department of National Defence, as well as any department, to operate efficiently without wasteful expenditure, the main function of the people in the armed services is not to economize, but rather to carry out their duties in the defence of Canada and in other locations. I would hate to see a situation in which Canada would have to say to the United Nations, "Sorry: we cannot ship a unit to the Congo, because we cannot arrange a quick cancellation of the leases". We have to keep in mind what are the priorities.

Mr. HARKNESS: When I was minister of defence I found that this was a difficult area. It is very easy to say three months is too long a period and that it should be cut to one month. In actual fact, there are many cases where men have to be posted at very short notice; they have no opportunity to give the three months' notice which has been required by and large. Really the whole problem goes back to the fact there has been a relative shortage of housing in a considerable number of areas where military camps exist. It is manifestly unfair, I think, particularly to the people in the lower ranks whose incomes are relatively small and whose rent is a big proportion of their total income, to force them to pay two months extra rent—and that is what it amounts to—because they have been posted at short notice. I think some reason has to be exercised in regard to these matters. This is essentially the reason why, in the department, we did not change the regulation to three months; it would have imposed undue hardship on a considerable number of people and would have been inequitable.

The CHAIRMAN: We are fortunate in having so many privy councillors volunteer for this committee. We are able to get so many questions answered.

Mr. HARKNESS: We did take a considerable number of measures to try to cut this down to the greatest extent possible. There was a general instruction issued that much more care was to be given to the posting of personnel and that personnel should be kept in the same stations for longer periods on average than had been the case so the total moving expenses could be reduced, as well as the cost of this particular item. There was an instruction that there should be a clause in the lease, when a house was to be taken over by another soldier, that this would not apply. Often, this does not work, but there have been considerable efforts to cut down the cost of this item and to cut down the general cost of travelling.

Mr. SOUTHAM: I am glad to hear Mr. Harkness make these remarks. Following on my previous remarks, I think much depends on the general administration.

Mr. RYAN: I agree with Mr. Southam.

I submit that a solicitor in the armed services should see every serviceman's lease before he actually signs it. A solicitor should advise the serviceman on his lease and should see that these notice clauses are kept to the minimum. When there is a notice of posting sent to the serviceman, he should again immediately report to the solicitor's office so that proper notice can be sent. This may be impossible due to an immediate posting, but there should possibly be clauses put in the lease by the solicitor in the first instance to the effect that the department may give notice in lieu of the tenant.

If this situation were looked into and given some consideration, there could be a great saving effected. It would only take one or two lawyers to service the whole field and yet it may save a couple of hundred thousand dollars a year.

The CHAIRMAN: Is it the view of the committee that further information on this point from the Department of National Defence is necessary, or are you satisfied?

Mr. GRAY: I think Mr. Harkness has helped to clarify the situation.

Mr. McMILLAN: Does this mean that people who have housing accommodation to rent receive about half a million dollars more than they otherwise would receive because they have other people to move in?

Mr. HENDERSON: Around half a million dollars is spent annually by the department in reimbursing for up to three months rent.

Mr. McMILLAN: And they rent right away again?

Mr. HENDERSON: Yes. The cases shown indicate that the landlords are not unaware of this, and therefore like to have the three months regulation.

Mr. McMILLAN: So they benefit by close to half a million dollars.

Mr. SOUTHAM: In the light of this discussion, I suggest the department should take the same action as that which you pointed out a few minutes ago. I suggest that there should be tightening up. As you said, after reading the committee's reports they started within a few weeks to take the necessary steps to tighten up these loopholes.

Mr. HENDERSON: Yes, but there is a host of regulations. You will notice particularly the last instance, stated on page 29, where you will see how an officer overcame the three-month clause. There are similar infractions coming up. The department is looking at this, but they have not moved in despite the fact that the R.C.M.P. dealt with this situation and had it put on a 30-day basis.

Mr. HARKNESS: There is a basic difference between the R.C.M.P. and the armed services. The numbers involved in the R.C.M.P. are very much smaller than those involved in the armed services, and their postings are ordinarily much more steady and for longer periods.

Mr. WAHN: I can foresee some circumstances in which one month might not be a long enough period of compensation to a landlord. For example, if a landlord effected a lease and had to pay compensation to the real estate agent, and then the man was there for only six months, one month would not be a reasonable length of notice. There may be many varying circumstances involved, so I do not see how it could be possible to lay down a rigid rule stating that under no circumstances will a man be permitted to reimburse to the extent of more than one month.

Could we not recommend that this be the standard provision, subject to a further provision which would say in effect that if a particular member of the armed forces could not arrange a 30-day termination on posting, he would have to submit his lease for approval by the legal officer of the unit if he wanted to pay more than 30 days' reimbursement? This would give some flexibility and it would establish the general rule that 30 days should be enough.



Mr. HALES: Mr. Chairman, I think that is the answer, that it should be one month, with special permission written in somewhere which has to be okayed by someone in the Department of National Defence. There is no doubt in my mind about it; this needs tightening up.

As some members will recall, we have talked about this matter for three years and it has not been corrected to date.

The CHAIRMAN: Is there any further discussion?

Mr. ROCK: Mr. Chairman, I cannot see how you can tighten anything up. If a person is called upon to move he would be stuck under this arrangement which has been suggested. He would be stuck with the contract if he was unable to make a deal with someone else to cancel it. If he was unable to do so he would have to make compensation for three months rental. I think he should be given assistance until that apartment is re-rented. If the landlord advertises for three months and is still not able to rent the apartment, then the tenant would be responsible. It is not his fault that he has to move.

Mr. HENDERSON: I do not think Mr. Wahn's proposal was denying that. If it was dealt with on the basis which Mr. Wahn suggested you would be able to avoid this in the future. However, you still would have to honour leases that had the three months stipulation in them, to the extent they may exist.

Mr. HALES: I move we adjourn.

The CHAIRMAN: It is now 10 minutes to 12; the next item probably will take some time. Would you prefer that we adjourn at this time?

Some hon. MEMBERS: Agreed.

## APPENDIX

Minister of Justice and Attorney General of Canada  
Ministre de la Justice et Procureur général du Canada

Ottawa, July 9, 1963

Dear Sir:

In paragraphs 69, 71 and 114 of his Report to the House of Commons for the fiscal year ended March 31, 1962, the Auditor General makes certain comments concerning matters relating to the Department of Justice.

There are some considerations bearing on these comments to which I should like to draw your attention, for such assistance as they may be to your Committee when they come to deal with these matters.

The comments in paragraph 69 respecting the Bankruptcy Act administration are correct and are, I believe, self-explanatory. If any further details or statistics should be required, I would be happy to supply them to the Committee.

With regard to paragraph 71 commenting on living allowances to federally-appointed judges, I understand that allowances are taxable under the Income Tax Act. A judge who acts as a conciliator or arbitrator must frequently work long hours away from his home and I suggest it is not unreasonable to expect that he should have comfortable lodgings. He might, for example, consider it necessary to have a sitting-room in the hotel so that he would have a place to work. Suitable accommodation plus the cost of meals could, especially in the larger cities, bring the total actual cost up to approximately the net amount of the allowance remaining after taxes, and of course judges could not be expected to act in these matters if they themselves had to pay part of the expenses.

With regard to paragraph 114, concerning identical tenders, I enclose a copy of a letter dated April 25, 1963, from the Director of Investigation and Research under the Combines Investigation Act to the Auditor General containing his observations with regard to the Auditor General's comments, with which I concur.

Yours sincerely,

Lionel Chevrier.

Chairman Public Accounts Committee,  
House of Commons,  
Ottawa, Ontario.

April 25, 1963

A. M. Henderson, Esq.,  
Auditor General of Canada,  
Justice Building,  
Ottawa, Ontario.

Dear Mr. Henderson:

Thank you very much for your letter of April 22 which reached me today.

I have given careful consideration to the recommendation contained in your last Annual Report that I publish a list of identical tenders received from time to time by departments and agencies of the government. My personal view is that such a step, if carried out by me as Director under the Combines Investigation Act, would not be justified in view of the nature of my statutory function.

As you know, where there is involved a market characterized by a relatively small number of sellers and a homogeneous product, I do not consider that, as a matter of responsible administration, I can ordinarily regard identical tenders or prices of themselves as sufficient evidence of collusion to warrant commencing an inquiry. In fact, such evidence is equivocal and in the absence of other positive evidence from which collusion can be demonstrated or inferred, must be regarded as a neutral fact. While identical tenders may indeed be a symptom of a conspiracy in restraint of trade, unless I am prepared to proceed with an inquiry into a suspected offence, I do not consider that I should assume that there is anything unlawful about the mere existence of identical tenders or prices.

There can, of course, be no doubt that if I did publish the details of identical tenders received, there would be an assumption on the part of the public that they are to be regarded with suspicion and it would, I am sure be assumed that they were published because I felt that they raised some serious question as to their legality under the Combines Investigation Act. As I would not regard such an inference warranted in the circumstances without more evidence, I would not willingly take the initiative in providing details that would give rise to such an inference on the part of the public which could not help but cast some doubt on the legality of the operation of the particular firms who would be named.

Whether or not such a policy of publishing identical tenders in some form should be adopted is, as I see it, a matter for the government rather than the Director to decide.

I know there is no need for me to add that all cases of identical tenders are scrutinized by me when they are drawn to my attention, with a view to determining whether I have reason to believe that an offence is disclosed and I expect to continue to receive the co-operation of all departments in complying with my request that they inform me of all cases of such tenderers that they suspect arise from collusion among the tenders. It is, if course, open to any six Canadian citizens and the Minister of Justice to compel me to undertake an inquiry in accordance with sections 7 and 8 of the Combines Act.

Yours very truly,

D. H. W. Henry  
Director.



HOUSE OF COMMONS  
First Session—Twenty-sixth Parliament  
1963

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STANDING COMMITTEE  
ON  
**PUBLIC ACCOUNTS**

*Chairman:* Mr. G. W. BALDWIN

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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 7

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Public Accounts, Volumes I, II and III (1962)

Report of the Auditor General to the House of Commons—1962

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FRIDAY, DECEMBER 6, 1963

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WITNESSES:

Mr. R. B. Bryce, Deputy Minister of Finance; Mr. D. W. H. Henry, Q.C.,  
Director of Investigation and Research under the Combines  
Investigation Act; and Mr. A. M. Henderson, Auditor General of  
Canada.

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1964

## STANDING COMMITTEE ON PUBLIC ACCOUNTS

*Chairman:* Mr. G. W. Baldwin

*Vice-Chairman:* Mr. W. H. McMillan

and Messrs.

Basford,	Harkness,	Rock,
*Beaulé,	Lessard ( <i>Saint-Henri</i> ),	Rondeau,
Berger,	Loiselle,	Ryan,
Cameron ( <i>High Park</i> ),	McLean,	Scott,
Cameron ( <i>Nanaimo-</i>	McNulty,	Slogan,
<i>Cowichan-The Islands</i> ),	Muir ( <i>Lisgar</i> ),	Smith,
Crouse,	Noble,	Southam,
Drouin,	Nowlan,	Stefanson,
Dubé,	O'Keefe,	Starr,
Eudes,	Olson,	Tardif,
Fane,	Pigeon,	Tucker,
Fisher,	Pilon,	Valade,
Forbes,	Regan,	Wahn,
Frenette,	Ricard,	Whelan,
Gendron,	Richard,	Woolliams—50.
Gray,	Rinfret,	
Hales,	Rochon,	

M. Slack,  
*Clerk of the Committee.*

\*Replaced by Mr. Plourde on Wednesday, December 4.

ORDER OF REFERENCE

HOUSE OF COMMONS,  
WEDNESDAY, December 4, 1963.

*Ordered*,—That the name of Mr. Plourde be substituted for that of Mr. Beaulé on the Standing Committee on Public Accounts.

Attest.

LEON-J. RAYMOND,  
*The Clerk of the House.*





## MINUTES OF PROCEEDINGS

FRIDAY, December 6, 1963.

(9)

The Standing Committee on Public Accounts met this day at 9.20 o'clock a.m. The Chairman, Mr. G. W. Baldwin, presided.

*Members present:* Messrs. Baldwin, Berger, Crouse, Fane, Forbes, Frenette, Harkness, McNulty, Nowlan, O'Keefe, Richard, Rinfret, Rock, Slogan, Southam, Starr, Tucker, Valade.—(18).

*In attendance:* Mr. R. B. Bryce, Deputy Minister of Finance; Mr. H. D. Clark, Secretary of Pensions and Social Insurance Section; Mr. W. J. Trudeau, Chief of Superannuation Branch; Mr. D. W. H. Henry, Director of Investigation and Research under the Combines Investigation Act; Mr. A. M. Henderson, Auditor General of Canada; and Messrs. Long, Millar, Smith, Ryder and Laroche from the Auditor General's office.

The Committee resumed consideration of the Auditor General's Report for the year ended March 31, 1962.

The Chairman advised that the Subcommittee on Form of Estimates completed their deliberations and expected to report back to the Main Committee in time to report to the House.

A letter from Mr. Hales, a member of the Committee, who was unable to be present for this sitting, was read by the Chairman, suggesting that the Deputy Minister of National Defence and other witnesses be heard with reference to the Auditor General's observations as outlined in paragraphs 74 to 82.

On paragraph 62, *Government contributions not made to superannuation accounts*, Mr. Bryce commented on the Auditor General's observations and outlined the position of his Department on this subject and was questioned thereon.

Mr. Henderson commented on Mr. Bryce's statement.

On paragraph 63, *Errors in Public Service Superannuation Account pension and contribution calculations*, Mr. Bryce reviewed the background of this paragraph and was examined, assisted by Mr. Clark.

The questioning of the witnesses still continuing, it was agreed that Mr. Bryce would return next Friday to complete consideration of matters relating to the Department of Finance. The Chairman thanked Mr. Bryce and he was retired.

On paragraph 114, *Identical tenders*, the Chairman read into the record a letter from Alwyn Decorative Lighting, Toronto, dated December 3, 1963, referring to actions of lamp manufacturers in Canada.

Pursuant to a resolution of the Committee of December 2, the Chairman called Mr. Henry, who made a statement on the subject of identical tenders and was examined thereon.

Mr. Henderson commented on Mr. Henry's statement and expressed his views on this subject.

The questioning of Mr. Henry still continuing, at 10.50 o'clock a.m., the Committee adjourned until 11.00 o'clock a.m., on Monday, December 9, 1963.

M. Slack,  
Clerk of the Committee.





## EVIDENCE

FRIDAY, December 6, 1963.

The CHAIRMAN: I see a quorum.

Today we have with us Mr. Robert Bryce, the deputy minister of finance, who has come here with some members of his staff to deal with subject matters we entered upon but let stand until we could have the benefit of his comments.

First, I would like to make two announcements. The subcommittee dealing with the form of the estimates has worked long and laboriously into the evenings and has completed its deliberations. I hope we will have a report back to us in time to be included with the report we make to the house.

Secondly, I have a letter from Mr. Hales who is not able to be here in which he says:

I regret my inability to be present at today's public accounts meeting. I would, sir, like to suggest to the committee that we invite the deputy minister of national defence and whatever other witnesses that are necessary to investigate further the Auditor General's observations as outlined in items 74-82, with particular reference to item 74, leave termination payments. I would hope that the necessary witnesses be called to appear before the public accounts committee at the first meeting on our return from the Christmas recess.

Mr. Hales asked me to read this out and give you notice of his intention in respect of this item which we discussed at the last meeting.

I am sure we are all very pleased Mr. Bryce is able to be here. The particular items with which he will be dealing at this meeting are the items starting on page 20 of the Auditor General's report, items 62 to 68.

I think I should say that as you know Mr. Bryce for many years was Clerk of the Privy Council and has only assumed office recently, just in time to be present at the meeting last week of the federal-provincial conference. We are very happy he is here and is going to deal with these subjects. By arrangement he will be continuing his discussion until approximately 10.15 a.m., at which time Mr. Henry, whom the committee asked to appear before it in connection with the problem we had discussed at our last meeting, will be here. It is likely that both Mr. Bryce and Mr. Henry will be back at another meeting.

I am pleased to ask Mr. Bryce to make a general comment, starting in respect of the item at page 20, paragraph 62.

Mr. R. B. BRYCE (*Deputy Minister of Finance*): Thank you, Mr. Chairman. The first item relates to the point of government contributions not made to the superannuation accounts—the lack of action in adding to the amount in the superannuation account, and charging it to expenditure, when increases have been made in the civil service salaries.

I think I would not disagree with the final paragraph in the Auditor General's observations on this matter. Perhaps, however, I might say a word about the more general question of which this is part. I am sure the committee is well aware that the superannuation account has certain accumulated

deficiencies, accumulated over a number of years, and that accumulated deficiencies exist in respect of the pension accounts of the armed services and the Royal Canadian Mounted Police.

The Minister of Finance has indicated it is his intention, during the year, to consider the action which should be taken to deal with these deficiencies in the accounts of Canada, and in securing the necessary parliamentary authority to charge whatever action is taken to expenditures, or equivalent action. He has not as yet made a decision on the matter, and there are two reasons for this.

I would like to draw your attention to the recommendation of the Glassco commission made in the third volume of their report, that these deficiencies should be systematically amortized by appropriate budgetary charges. We have had this under consideration, because of the earlier observations of the public accounts committee and the Auditor General, as well as the general desire that our accounts should reflect a proper actuarial valuation of our pension liabilities, and that the accrual of liabilities resulting from service performed during the year should be properly reflected in the charges to the cost of operations during the year.

There are two reasons why the Minister of Finance has not yet reached a decision on action to be taken in respect of the accumulated deficiencies. The first is that the quinquennial valuation of the public superannuation fund is in process and a report is expected in another two or three months time. We naturally prefer to take action in the light of that report which relates to the situation at December 31, 1962, I believe.

Secondly, the position of the fund or superannuation account would be substantially affected by the adjustments to take account of the Canada pension plan. As you are well aware, one of the most important features of the introduction of the Canada pension plan is going to be the kind of adjustments that it will make necessary, or at least desirable, in other pension plans affecting persons who come under the Canada pension plan. We are giving a good deal of thought to the kinds of adjustments that ought to be made in the public service superannuation plan to take into account the Canada pension plan.

As you know, the details of the Canada pension plan have been under discussion with the provinces and, as the Prime Minister has indicated, some modifications are being made and will be put forward in the near future. Until we have the decisions of the government and of parliament in regard to the Canada pension plan we cannot with any precision reach decisions on what should be recommended to the government and in due course to parliament regarding modifications to be made in the superannuation act. These modifications may well affect in a substantial way the amount of liabilities to be reflected in the superannuation account.

There has been no decision by the government, but perhaps I could indicate that those of us who have been working on it have envisaged that part of the contributions being paid by civil servants, and by the government on behalf of civil servants, would be diverted to become contributions to the Canada pension plan, and that the contributors under the superannuation plan would in turn expect to get benefits under the Canada pension plan. These benefits would be taken into account in adjusting the pensions payable under the superannuation act. The changes, therefore, would affect both the future benefits to be paid under the superannuation act and the future contributions to be expected. It will make necessary a subsequent reappraisal of the state of the account, and only then can we complete a proper course of action to bring the account into balance and properly reflect future liabilities.

Mr. Chairman, all this may sound like a rather long background against which to speak to the particular item which Mr. Henderson has again raised

here; that is to say, the matter of reflecting in the superannuation account increases in future liabilities arising out of increases in salary. I think it is fairly evident that the principle embodied in the subsection of the superannuation act, to which the Auditor General refers in his opening paragraph, is not clearly applicable to the kind of cyclical revisions that have been made in recent years. It was drawn up at the time when we made the salary revisions on a completely comprehensive basis as far as the classified civil service was concerned.

When we made such completely comprehensive changes the Department of Finance and the government felt that it was proper to reflect them in a revision of the superannuation liabilities which would be affected in the future. We assume, that when we increase salaries they are increased indefinitely into the future. Our record for decreasing salaries is not one that would lead anyone to question that assumption.

About two or three years ago, and I cannot be precise here, the government decided that rather than raise all salaries for all classes of classified civil servants at one time it would be better to do certain groups of related classes at one time and follow them later with others. This was done for several reasons. It was not done, I can assure you with the idea of avoiding this paragraph of the superannuation act.

This revision of salaries involves a tremendous amount of detailed work, as you can imagine, and it was felt that this work could be better carried out on a continuing basis whereby various groups would be dealt with at intervals of several months rather than endeavouring to do everything at one time. Of course, in future we are going to be confronted with collective bargaining in respect of civil service salaries, and it will get even more complicated. Therefore, the plans that we are making for crediting to the superannuation account the necessary amounts to reflect changes in salaries will become an even more complicated matter than what we have at the present time.

While this requires some decision of policy on the part of the government, the present government has not yet made or announced a decision of policy and, therefore, I would caution you that I must speak with particular care on the matter because I do not wish to anticipate any decision. My own belief is that we should thoroughly review this subsection of the legislation now and the policy embodied in it, having in mind as a goal the reflection of pay increases in our actuarial evaluation of pension liabilities to be amortized over a reasonably short number of years after the increases take effect.

Our pension rates now are based on a six year average of pay rates, technically the best six years in the pensioner's history. Normally that means the last six years. Consequently, a six year period for amortizing this increased liability might have some sense to it. Alternatively, we should note that period between the statutory valuations by actuaries of the liabilities in the account is five years and, therefore, five years might be a more convenient and, perhaps in terms of the statute, a more logical period to use in amortizing this increased liability.

Of course, if either five or six years were to be used we would have to anticipate that in any one year we might well be amortizing two or three salary increases at the same time, overlapping. I do not believe there would be anything impossible or illogical in doing that, but it would mean that the parliament and public would be aware of the impact on our budget and the cost of the operation of these changes in salary rates in so far as they effect future pension liabilities.



We are now studying an arrangement to reflect these increased liabilities in our accounts as quickly as is possible and then to write them off to expenditure in such a period of five or six years, or something of that nature.

Mr. Chairman, I am sorry to have spoken so long on what is inevitably a rather complicated subject, but I naturally would welcome the opportunity of answering any questions I can.

The CHAIRMAN: Thank you, Mr. Bryce, we appreciate your lengthy and excellent statement. Before we ask questions, perhaps Mr. Henderson would like to make a comment in respect of the statement made by Mr. Bryce, following which we could ask questions.

Mr. HENDERSON: Mr. Chairman, I have listened with interest to Mr. Bryce's explanation of this situation as it is viewed today by the Department of Finance.

The possible impact of the Canada pension plan, of course, is something that lies in the future and I would not be prepared to speak to that until such time as more is known about it and in particular the manner in which it is proposed to be integrated or otherwise, with the public service superannuation plan.

My comment in paragraph 62 deals with something which is right on our doorstep and has been on our doorstep for the past three years. It is a very substantial matter involving something over \$161,000,000 in the one year that I have commented on here, in respect of which no credit was made to the fund and no charge was made to expenditure. The same situation happened in 1961-62 and I shall be reporting in the same way to the House of Commons again this year. Nothing has been done however with respect to the 1960-61 situation. I do not know the size of the amounts for the last two years because no request was made to the department of insurance to compute it. As I say here, in 1960-61 the amount was over \$161,000,000 for the three funds. Whether the cyclical increases which have gradually extended across the board are increases of general application as provided for in the law on this subject may be subject to different interpretations. I have set out the facts here, and I would be interested in your views. I take the view that they do seem to be increases of general application and, moreover, have been described as such in other quarters.

Mr. VALADE: Are you referring to paragraph 62?

Mr. HENDERSON: I am referring to paragraph 62 and the quotation from the act at the top of the paragraph.

Mr. VALADE: What was the amount you mentioned?

Mr. HENDERSON: \$161 million—the sum of three figures; \$80 million, \$79 million and \$1,700,000 for three funds in question.

However, Mr. Chairman, I think Mr. Bryce's explanation and appreciation of the problem will be helpful to you. It is helpful to me and my officers in assessing what steps should be taken on this matter in the future. May I also say that you have not yet given attention to paragraph 144 where I point out the whole deficiency picture in the superannuation accounts. That comes under, of course, our balance sheet comments further on in this report.

I think perhaps the members may have some questions.

The CHAIRMAN: Are there any questions now in respect of the paragraph and the comments which have been made by Mr. Bryce and Mr. Henderson?

Mr. SOUTHAM: I think we can fully appreciate the concern of the Auditor General. It seems to me as a general observation that perhaps there should be a change in the pattern that we have been developing over the last several years in respect of pay increases on a categorical basis, as Mr. Bryce has pointed

out, rather than an over-all application, having regard to the anticipation of the changes from the inception of this Canada pension plan. I think this has been in the minds of the people and possibly has resulted in both the previous government and this government not knowing what action to take or when to take it. This will apply to the new pattern that is developing.

I was very pleased to hear Mr. Bryce mention that the present government is looking at this situation because, as I said, the Auditor General naturally would be concerned and I think should be concerned with the actuarial stability of our superannuation fund. The only other comment I have is, this is the time when the government should take a serious look at this situation; is that right?

Mr. HENDERSON: I would say so, yes.

Mr. ROCK: Mr. Chairman, I do not quite understand the problem. Does the problem involve the situation which occurs when a person receives a raise in salary; must he, within a certain period of time, elect to contribute more toward his superannuation fund?

Mr. HENDERSON: No. To oversimplify the situation it works this way. When you put a man's salary up, as Mr. Bryce explained, it affects the size of the pension he is going to get, because the pension is based on the man's average salary for the last six years.

Mr. ROCK: Yes.

Mr. HENDERSON: Therefore, you have to put something in the fund right then in order to build it up.

Mr. ROCK: It has nothing to do with the amount he has contributed?

Mr. HENDERSON: No.

Mr. ROCK: When he receives that raise he should contribute more, is that right?

Mr. HENDERSON: He naturally contributes more from the date of the raise because he pays a percentage of his salary into the fund toward his pension.

Mr. ROCK: I thought that he had to sign certain papers giving you the authority to collect this extra money?

Mr. HENDERSON: He does do that.

Mr. ROCK: But if he does not do that, then what happens?

Mr. HENDERSON: The employee pays his side of it, but his employer also has an obligation to match that contribution.

Mr. ROCK: Yes.

Mr. HENDERSON: By a payment into the fund, but that has not been done here.

Mr. ROCK: I see.

Mr. FANE: Mr. Chairman, would this be an opportune time to ask a question in respect of those individuals who joined the civil service after they served in the war but had not been civil servants before that time and are being charged I believe 12 per cent of their salary to make up their superannuation so that the five or six years they were in the service will count toward their civil service pension? Is this the time to ask for clarification of that situation?

The CHAIRMAN: Strictly speaking I would think this is not relevant at this stage, Mr. Fane. As a matter of fact, Mr. Henderson informs me that this subject falls within paragraph No. 63.

Mr. FANE: I knew this subject was covered somewhere in the report but I was not sure exactly where. Having asked the question, I suppose this would not be a good time to answer it, but it would avoid the necessity of my putting the question on the record again?

The CHAIRMAN: We will take this as notice of the question, Mr. Fane.

Mr. FANE: Very well.

The CHAIRMAN: Mr. Bryce will be prepared for it when we come to the next section.

Mr. BRYCE: Perhaps I should state that this question was discussed by the committee of the house that dealt with the revision of the superannuation act in 1960 and it reached a decision in this regard at that time. I am not familiar with the discussions that took place then, sir, but I think that is where you would find the matter thoroughly discussed.

Mr. FANE: Since we are talking about this, I am informed some of these people who have to pay 12 per cent of their salaries into the superannuation fund instead of six per cent are finding it quite difficult to do so.

Mr. VALADE: Mr. Chairman, I am trying to find out whether the difficulty in accounting or balancing the accounting on this particular subject is a result of a lack of the civil service employee technique. Should the civil service come up with a systematic proposition for pay increases as suggested by Mr. Bryce? I suppose the recommendation is that the civil service should set up systematic pay increases so that we can foresee amortization in the six-year period or on a six-year basis. Would you go by a fixed standard of cyclical increases in pay for civil servants?

Mr. BRYCE: We cannot determine the manner of proceeding on pay increases at our convenience as managers of the superannuation fund, but the government has decided, and I think all parties of parliament have taken the view, that we should go in for collective bargaining arrangements with our employees. We are now intensively preparing for all the complications and changes in our arrangements which that is going to make. This will be the situation we have to contend with in future years in adjusting our superannuation accounts. We must anticipate that there will be bargaining changes going on all the time. I think we will have to devise some means by which changes in salaries that arise out of this are properly reflected in our pension accounts. This will not be all that different in principle from the situation we now have where we have large groups of salaries being changed normally every two years for a particular group, with groups being adjusted every few months. Therefore our problem really is to take account of the results of these changes in the pension fund, and our thinking is that we would reflect these just as quickly as we can in the information provided to parliament in future accounts, and then ask parliament to approve the charging of the changes to our budgets over a reasonable period of time.

Mr. VALADE: Has the civil service come up with some kind of positive suggestion, or is it the reverse, the Minister of Finance trying to make a proposition to the civil service?

Mr. BRYCE: We as officials have been discussing the matter with the minister on many occasions. We will come up with suggestions and we can, of course, come up with suggestions on this particular aspect in the reasonably near future. What I was endeavouring to make clear was that in regard to the accumulated deficiency from the past, the situation is very much complicated by the expectation that the Canada pension plan will affect it and also that we will not have the precise figures for several months from an actuarial evaluation.

The CHAIRMAN: Are there any other questions in respect of this section? May we pass on to paragraph 63?

Mr. BRYCE: Mr. Chairman, I should say first that this relates to a state of affairs in the administration of the superannuation fund which I found when



I arrived in the department a few months ago. I have not had anything to do with it for a good many years but I find it very worrying, just as the Auditor General and, I think, as the committee have found it.

What I think is particularly worrying is that many mistakes are found, as the Auditor General mentions here, in the contributions made to pay for benefits, or in the basis of elections under the superannuation act, at a late stage in an employees career, and the law requires that we make suitable adjustment for those changes. Those adjustments often frustrate the expectations of the employee concerned, and give rise to difficulties both for us and for the employee. In many cases the employees are people who have just retired, or it may affect their widows when they have died. Therefore, I think we should look to achieve a reduction in these errors to the minimum that can be obtained; to ensure as quickly as possible that people know where they stand and what adjustments if any, they should make in their contributions, and also what they can expect in terms of pensions.

I think it is fair to draw the committee's attention to this fact; this is a terribly complicated act. I must confess that I have not read it now for some years, although I knew it 12 years ago when it was somewhat more simple than it is now.

This is an act, I suppose, that is second only to the Income Tax Act in its complexity. It is administered by a large number of dedicated clerks who do this work as carefully as they can.

The kind of errors that are made are normally not errors in arithmetic but complicated errors in the application of this very complicated statute, and they are made not simply in the branch itself, but in pay offices, in various departments where the people are employed, in the interpretation of the rights of employees to contribute for various types of services and, various things of that sort. I entirely agree that there are too many mistakes turning up and our feeling is that they should be diminished just as quickly and as effectively as possible. These mistakes are diminishing and have been diminishing in recent years particularly in the past year.

Perhaps I might just say that the secretary of the treasury board has informed the Auditor General, and we have been advised also by one of his representatives, that there has been a 38½ per cent reduction in 1962-63 in the number of errors directly attributable to the superannuation branch, with a smaller reduction in errors attributable to the treasury offices. This is assuming, of course, that the figure of 29.2 per cent mentioned by the Auditor General, and reported to us, covers the errors charged to both agencies, as was the case in previous years.

Mr. Steele goes on to say he will readily concede that this rate of error is still much too high, but is confident that it will continue to drop this year and in succeeding years. I just wanted to indicate those figures as evidence that we are making progress.

One of the ways in which we are making progress is by carrying out a careful internal audit in the branch by experienced senior clerks employed by the branch. This is not a separate pre-audit carried out by the Comptroller of the Treasury but one carried out by the branch itself.

The big problem with which we are faced is not in respect of errors being made currently in current operations but the accumulation of errors made many years ago, mainly before 1954 and, I think to some extent, errors made when the tens of thousands of temporary civil servants were made permanent, as we say in the jargon of the service, and brought under the pension plan.

This involved an enormous sudden burden thrust upon the superannuation branch, and we have still not worked out of the faulty records and faulty action that was taken in this period of overload.

We are planning to overcome this problem by hiring and training enough people to go through the past records systematically and check them against the action that was taken, and the calculations that were made of the entitlements under the statute. This is going to take, I am sorry to say, a good deal of time as well as money for people who have to be not only found but trained.

The Minister of Finance, when he was apprised of this situation stressed to me that he felt this should be done and done just as quickly as is possible so that we will not have these errors discovered at such a late stage as has been the case in the past, and at a stage when they cause difficulties for people at a time when it is hardest to meet these difficulties.

This is the explanation of the situation up to date. I should say that as a matter of organization the minister had decided, on my recommendation, that the superannuation branch should be transferred from the general direction of the secretary of the treasury board, as has been the case as far back as I can recall, to the general direction of the Comptroller of the Treasury. The Comptroller of the Treasury is more familiar with and accustomed to dealing with this type of large clerical operation, and the minister, as well as myself, hope that he will be able to apply to it the kind of techniques of pre-audit, checking and correction of records that he applies in the other operations for which he is responsible. We hope as a result, therefore, of the action that has been taken by the superannuation branch itself and, by having it directly responsible to the Comptroller of the Treasury, whom this committee knows is an officer very conscientious in his duties in regard to records, audit and such matters, that we will make real progress in dealing with the situation to which attention is called by the Auditor General.

The CHAIRMAN: Thank you Mr. Bryce. In view of the very frank statement made by Mr. Bryce are there any questions with regard to this section?

Mr. FANE: Mr. Chairman, in respect of the question I asked a few minutes ago, I gather the whole situation is being investigated and is under control?

Mr. BRYCE: Perhaps I might add in so far as your question applies to whether those entitled to certain benefits or options under the act are getting what they are entitled to, or having their contributions and benefits properly calculated, it would apply. In so far as your question relates as to whether the act ought to be changed it does not apply. That would be a different matter.

Mr. FANE: Thank you very much.

Mr. HARKNESS: In respect of the two types of cases, where it is discovered at about the time an individual is retiring that he has not paid enough in the form of contributions and, on the other hand when it has been discovered that he has paid in more than he should have paid in, what happens?

Mr. BRYCE: If he has paid too little, sir, the additional amount that is owing is collected over a period of time. We do not expect him to pay it off immediately.

Mr. HARKNESS: It is deducted from the pension that is paid to him.

Mr. BRYCE: It is deducted from the pension that is paid to him if he is immediately going on pension and it is deducted out of his salary if he remains for some years on salary. If he has paid too much he is given a refund.

Mr. VALADE: Mr. Chairman, I should like to ask Mr. Bryce a question. Is he proposing that these tests should be made by the Minister of Finance or

should they be made by the Auditor General in order to check into these accounts? There seems to be a kind of indecision in this regard according to what you have said, sir. You mentioned that the Minister of Finance should look into each of these accounts, but would it not be much more appropriate for the Auditor General to have the responsibility of checking into these accounts?

Mr. BRYCE: We hope to have the Auditor General look at whatever account he feels should be looked at. On the other hand, we feel it is our responsibility and the responsibility of the Department of Finance to do all the checking and auditing that is necessary before payments are made. We feel it is our responsibility to avoid mistakes and to determine the proper amount owing. The Auditor General is there as your representative to make sure that we are doing the job correctly. He has said he does not think we are doing it correctly and we agree, and we are going to do it better.

Mr. VALADE: Perhaps Mr. Henderson would like to comment in this regard.

Mr. HENDERSON: Mr. Valade, I endorse exactly what Mr. Bryce said in this connection. Our work, as you know, is based on test examinations, and it is because of the volume of errors we found in our tests that this matter was raised. If Mr. Bryce's department is able to institute the changes he has outlined I would most certainly hope that the number of errors will be greatly reduced and accordingly it will not fall to us to bring forward so many cases requiring adjustment.

Mr. VALADE: I do not have the English copy of the report before me, but at the end of paragraph 63 the secretary of the treasury board suggests a verification by the treasury board, or the Comptroller of the Treasury.

Mr. HENDERSON: That is correct, but as Mr. Bryce has explained, I think he stated that organizationally the Comptroller of the Treasury is going to take over the complete checking operation, which in my opinion would be a definite improvement in the situation.

Mr. VALADE: If approval is given, and each of the cases is verified before payments are made to avoid the errors that you are talking about, will this not delay payment of pensions to these individuals?

Mr. BRYCE: We cannot delay payment of pensions to people who retire. This would be quite wrong. Mr. Trudeau's problem, the man in charge of the branch, is that he has got to keep the machine running and running efficiently, and at the same time try to keep up with this enormous backlog of records that should be checked. He simply cannot do that unless he has not only the number of staff required to do it and the space to work in, but the trained staff. Unfortunately the only people in the world who can train this staff are the people who are doing the job now. This must be done to discover these errors in time, and to correct them before people retire or die and widows become entitled to pensions. This requires a special effort by those who are there—a special additional effort, and a special addition to the staff to deal with the extra burden that would arise.

Mr. SLOGAN: Mr. Chairman, I intended to ask a question further to Mr. Harkness' question in respect of the matter of these under and overpayments and the matter of interest. Is there a question of interest involved?

Mr. CLARK: Again, this may be as the result of an error. In other words, if the individual gives the proper particulars for payment, and the individual responsible does not take the correct amount from his pay cheque each month, then no interest actually is charged from the date upon which the default occurred up until the date payment is made.



Mr. SLOGAN: What about overpayments, does an individual get interest in this regard?

Mr. CLARK: No, there is no provision for interest on overpayments.

Mr. SLOGAN: This situation seems to be prevalent in the government service. If a person is overtaxed, the government does not pay interest, but if a person is undertaxed he must pay interest. Perhaps the Auditor General could look into this situation.

Mr. CROUSE: Perhaps Mr. Bryce could tell us whether the over or underpayments in regard to pensions are usually brought to light by the pensioner himself who raises the question of how much his pension should be, or is it usually as a result of someone suddenly realizing that an individual has been charged too much or too little? What efforts are being made by your department to change the rules so that there are not so many complications, eliminating the possibility of error in future?

Mr. BRYCE: Perhaps Mr. Clark could answer your question.

Mr. CLARK: The objective is, of course, to find errors long before retirement. At the moment, as I understand it, the department will give some notice of the impending retirement of an employee and every effort is therefore made before he ceases to be employed to verify the correctness of the pension that is to be paid. Sometimes in a complicated case an interim amount is determined and payment commences subject to confirmation at a later date. In some instances it is possible that the Auditor General's representatives will find that there has been an error made, but unfortunately these examinations in the past have taken place all too close to the date of retirement. This is what we are hoping to cure.

Mr. ROCK: Someone has just mentioned that you are very short of staff and you must train staff to conduct these test checks.

Mr. BRYCE: We do have employees to do the calculations in respect of these pensions at the time of the retirement when it must be calculated, but if we are going to go through the tens of thousands of files in order to correct this backlog, then it is necessary to take on additional staff to do that work of checking the backlog ahead of time.

Mr. ROCK: What do you do now?

Mr. BRYCE: If the civil service commission and the treasury board will do what is necessary we intend to get the additional staff and train them to catch up on this backlog.

Perhaps I could just say apropos of an earlier remark about Parkinson's principle, this catching up on the backlog in my experience is well worth while from both the treasury and administrative point of view. I well remember, as Mr. Nowlan may do, one of the great reforms that was made here, back in the 1940's, was when Mr. William Scully was deputy minister in charge of taxation. At that time there was a determined drive to catch up on the backlog in respect of income tax cases. I think not only did we in the government services see an improvement, the taxpayers saw a great improvement achieved at that time when the situation became current. I think the same will be true here once we get these records in proper shape, and we will find that this is far better not only for us but for all those with whom we do business.

Mr. SOUTHAM: Mr. Chairman, in dealing with this problem of errors in public service superannuation pensions account and contribution calculations, I would like to ask Mr. Bryce whether in his opinion he thinks that this may be the result of too many cooks spoiling the broth. You have pointed out in your remarks that it is not a matter of premeditated, or miscalculations as far as arithmetic is concerned, but rather because of the judgment of various

people in other than the superannuation branch in arriving at decisions. Is there any possibility of concentrating this responsibility so that these decisions will be made by fewer people resulting in over-all continuity?

Mr. BRYCE: The problem here is that as a matter of operating efficiency it is necessary for the pay office to make deductions from a man's pay. This has to be applied to hundreds of thousands of people and it has to be done in accordance with the law. The notification of that has to go according to an established system from there to the superannuation branch. The employing departments have to be in touch with their employees in regard to the options they wish to take when there are certain optional courses of action. We have a very complicated law which makes provision for all sorts of special cases which parliament has enacted and which we have to carry out. The thing is of such a nature that a lot of people have to be involved. The people in the superannuation branch, as well as Mr. Clark here and my staff in the department, have to be the experts on this, but the operations have to be carried out by a great number of people.

Mr. VALADE: Mr. Bryce, would you have an idea of how long it will take, in terms of years, to correct this by your system of correction?

Mr. BRYCE: Yesterday I asked Mr. Trudeau, who is in charge of the branch, and he told me it would take a minimum of three years.

Mr. VALADE: If there is a national pension scheme proposed in the next session of parliament, will you not then come into conflict with a system which would not serve any purpose if it were established this year?

Mr. BRYCE: We will have to make a whole series of revisions. If it is done, this will be the will of parliament which we will do our best to carry out.

The CHAIRMAN: I do not want to choke off discussion but I think we have had a very excellent and comprehensive review of these matters. We will be very happy to have Mr. Bryce with us a week from today, which will be our last meeting, when we will complete our discussion of the rest of the items plus one item in the follow-up report with regard to the exchange fund. We will be completing those at that time. We are grateful to Mr. Bryce for coming here and we look forward to him coming back here next Friday. Thank you very much indeed, sir.

Will you now turn to paragraph 114 on page 53 of the Auditor General's report.

114. *Identical tenders.* In paragraph 77 of last year's report it was brought to notice that the Department of Public Works had called for tenders for the supply of incandescent lamps and fluorescent tubes to meet the needs of various federal buildings throughout Canada during the fiscal year 1961-62 and that, based on the application of unit prices to estimated quantities, identical bids of \$301,191.16 were received from the three companies submitting the lowest complete tenders. This was the third instance of identical bids for lamps during the preceding four years, and the Treasury Board authorized placing the order with a company other than the one which had held the contract during the two previous fiscal years.

During the year under review the Department of Public Works called for tenders for the supply of incandescent lamps and fluorescent tubes which it was estimated would be required during the two year period commencing April 1, 1962. It was hoped that the longer term contract might result in a more competitive set of quotations and in one firm quoting lower than the others. When the tenders were opened, it was found that the same three firms which had submitted the identical low bids for 1961-62 had again submitted identical low bids in the amount

of \$645,264.16. After placing the facts before the combines branch of the Department of Justice, as had been done in previous years, the Department of Public Works obtained treasury board authority to award the contract to the company which offered products manufactured wholly by itself, which offered as part of its tender a bonus type lamp and which had not had the order in the preceding year.

During the course of our examination of departmental records during the past year, we noted, in addition to the above "repeater" case involving incandescent lamps and fluorescent tubes, approximately 100 cases of identical tenders having been received by government departments. In practically all of the instances, which covered a number of product areas, details were furnished by the departments concerned to the combines branch.

We are informed that the combines branch is continuing its practice of scrutinizing and accumulating such evidence in the event that the information "may ultimately become relevant and useful should evidence of collusive practices be disclosed". In the course of reviewing our findings regarding government purchases, we have suggested to officers of the Branch that it might be desirable were all identical tenders received by government departments, Crown corporations and other agencies listed each year by the combines branch in the annual report made by the director of investigation and research to the Minister of Justice under section 44 of the Combines Investigation Act.

This was a matter which we had brought up out of context because of the letter of the Minister of Justice, and we invited Mr. Henry to be here. I understand he is here and has a statement which is now going to be distributed. I want to read a letter which was directed to Mr. Henderson and which is relevant to this particular matter. The letter is dated December 3, 1963 and is from Alwyn Decorative Lighting with the signature of Mr. A. L. Wynston. Mr. Henderson has given it to me and under the circumstances I should read it and put it on the record:

Dear Mr. Henderson,

I read this morning with great interest in the *Globe and Mail* on business re: Government tenders involved.

It may be of interest for you to know that the writer who was at one time associated with Noma Lites Canada Limited and Noel Lighting Limited has endeavoured since 1961 to secure an investigator of the lamp manufactures in Canada. The chief government investigator, Mr. D. H. W. Henry, has a complete file on this subject, the Minister of Justice, the Minister of Finance and the Minister of Trade and Commerce. It is possible that this is now under investigation.

Naturally, when reading the account, it makes me feel as if my thoughts were in the right direction. If I can be of any assistance, please do not hesitate to call on me. There are others who could also give you some very pertinent information. That segment of the electrical industry that I am associated with is being forced out of business as a result of the actions of the lamp manufacturers in Canada; namely the Canadian General Electric Company and the Canadian Westinghouse Company.

Awaiting your reply with interest,

Yours truly,

Alwyn Decorative Lighting  
(Sgd) A. L. Wynston



There might be a suggestion made to call Mr. Wynston, but this may be discussed later in view of his suggestion here. I am now going to ask Mr. Henry if he would be good enough to comment and possibly to read his statement which you should all have before you at this time.

Mr. D. H. W. HENRY (*Director of Investigation and Research, Combines Investigation Act*): I welcome the opportunity to come to discuss the subject of identical tenders or, as I would prefer you to call it, tendering practices. It is a very difficult subject and perhaps what I have to say might explain some of the practical difficulties from the standpoint of the combines branch and also serve to explain to you, as members of the house, just what the phenomenon of identical tenders, particularly equal tenders, amounts to. I will read this statement, and all the words in it are important. I would like to make sure they are on the record.

In order to assist the committee in its consideration of the subject of identical tenders raised in the Auditor General's report, I thought that it might be helpful if I were to set out by way of background some general considerations concerning the application of the Combines Investigation Act to this subject.

Hon. members will be aware that the Combines Investigation Act, which is part of the criminal law of Canada, prohibits with penal consequences three main classes of conduct:

(a) Combinations that prevent or lessen unduly competition in the production, purchase, sale, storage, rental, transportation or supply of commodities or in the price of insurance.

(b) Mergers or monopolies that may operate to the detriment of the public.

(c) Unfair trade practices including price discrimination, predatory pricing, certain promotional allowances, misrepresentation of the regular price and resale price maintenance.

(For a precise statement of the offences see sections 2, 32, 33, 33A, 33B, 33C and 34 of the Combines Investigation Act.)

Collusive tendering practices would give rise to inquiry where they fall within the prohibition relating to combinations and conspiracies in restraint of trade.

It should also be borne in mind that the director of investigation and research is a statutory officer named by parliament as the agency for conducting formal inquiries under the act. The act provides that the director shall commence an inquiry whenever he has reason to believe that an offence against the act has been or is about to be committed. Virtually all inquiries are conducted by the director on his own initiative under this provision, most of them resulting from a complaint made to the director by a member of the public.

In addition, the director may be set in motion by any six Canadian citizens who submit an application to him in accordance with the statute; and he may be set in motion by the government. As I have said, however, inquiries almost invariably are instituted on the director's own initiative. You will see the sense of this provision is that if the director is, in the view of the members of the public or the government, not carrying out his functions, he can be set in motion, but this very seldom occurs.

The statute gives very wide powers to invade the private rights of individuals and corporations by, for example, the seizing of documents on business or private premises, compelling witnesses to testify orally under oath and to produce documents, compelling individuals or corporations to make

returns under oath to questionnaires, and the like. The most confidential kind of information about internal affairs of businessmen is obtained under these powers.

Such powers must be exercised responsibly, in accordance only with the authority given by the statute and in accordance with sound principles of administrative law. The director is empowered to commence an inquiry on his own initiative only where he "has reason to believe that an offence has been or is about to be committed" and this requires the director to make a conscientious and objective judgment as to whether he indeed has "reason to believe" before starting to exercise his formal powers. For this reason it has been my policy not to institute inquiries on the basis of mere suspicion or rumour but only on the basis of facts obtained from a responsible source that *prima facie* indicate the likelihood or strong possibility that evidence of an offence may exist.

An inquiry, by the statute, is required to be conducted in private unless the chairman of the restrictive trade practices commission which is a separate body from the director orders that all or any portion of any proceedings before the commission shall be conducted in public. Proceedings are occasionally ordered to be held in public at the stage where the parties are presenting their case to the commission but I have never known a case where the inquiry being conducted by the director has been so conducted in public.

It is principally for this reason that my predecessors and I have taken the position that we are not at liberty to give out information as to whether or not an inquiry is being pursued in a particular case. Successive ministers of justice, when questioned about the existence of a particular inquiry, have explained to the house that it is not the practice to give out such information unless and until it appears in a published report. As I understand it, the house has accepted this explanation. Some comments about the confidentiality of information in the possession of the director were made in my annual report for the fiscal year ended March 31, 1963, at page 9, the last annual report that all members received a few months ago. I should however like to emphasize that subject to what I have said about confidentiality, we do our best to keep the public fully informed as to what is being done in the combines branch. If an inquiry is commenced and discloses an offence, the matter will ultimately be dealt with in a published report of the restrictive trade practices commission or will be disclosed in public proceedings in the courts or both. If an inquiry is discontinued because sufficient evidence of an offence is not forthcoming, the discontinuance and the reason therefor are published in the director's annual report.

My position on the subject of identical tenders has been set out as a matter of public record in my annual report for the year ended March 31, 1961, at page 23.

I understand this has been distributed.

I think it would be helpful if I were to restate my position now.

I should like to say at once that I fully recognize that identical tenders may be collusive and if they are they ought to be the subject of an inquiry under the combines act. My position, therefore, is that identical tenders that are thought to result from collusion ought to be reported to the combines branch where they will be examined in order to determine whether there is reason to believe that they are collusive.

However, in dealing with the matter in a practical way, it must be borne in mind that in some circumstances the fact that a number of sellers have quoted identical prices raises a strong presumption of arrangements among them, while in other circumstances all suppliers are likely to quote identical

prices whether the quotations are the subject of agreement or not. In appraising situations where identical prices occur, the director is assisted by the experience of the branch in inquiries previously undertaken and by studies which have been carried out by economists specializing in the field of price behaviour.

It is generally recognized by economists and businessmen that, in a market where there are only a few firms supplying a homogeneous product, any difference in the prices at which the firms regularly sell the product can be only temporary unless some unusual factor is present. Any such seller, for example, will find it difficult to market goods at a price higher than that at which his competitor is offering the product so long as the latter is able to supply the market. Unless a decision to reduce a price is considered unsound by those controlling the larger part of the production for the market, each price reduction by one of a few sellers is likely to be followed by competitors and the firm initiating the price reduction may simply retain its original share of the market at a lower margin of profit. If the market shares held by the several sellers are altered in the process, a seller whose share has decreased may attempt to regain his original position by a further price cut, and additional rounds of price cutting may follow.

Sellers in a market where there are few competitors are generally aware that attempts to enlarge their shares of the market by price cutting may result in rapid deterioration of price stability and substantial reduction of profits. They therefore tend to avoid any action which might put a chain of price cuts in motion. As long as the price structure is not disturbed by others, they are reluctant to make any price concession that might be detected by a competitor; this is particularly true if there is nothing in the business subject to quotation which sets it apart from the type of business ordinarily done by the firm, and in contemplation of which list prices were established.

The results of tenders made to public bodies are frequently made public or released by purchasing departments to those submitting quotations so that any departure from ordinary price levels in this process is likely to be known to all firms in the industry concerned.

Where the supply of materials to public bodies constitutes the day-to-day business of the seller or, if this is not the case, where quantities required by such users are not significantly different from those required by regular customers, a supplier tends to assume that his competitors will not depart from their usual behaviour; that is, if they ordinarily adhere to list prices he will expect them to do so in submitting quotations to public bodies notwithstanding the fact that the latter may purchase by tender. He may then expect if factors other than price create no preference, that his chance of receiving business or a share of it at list price will be equal to those of his competitors.

In submitting a tender, a seller may be expected to weigh projected advantages of receiving the total order at a price below list against the risk of provoking retaliatory price cuts. He would also be expected to consider the possibility that regular customers who purchased at list might demand similar concessions, particularly if their purchases attained or surpassed the quantity on which the tenders were invited. Where conditions are such that each seller is likely to conclude that a quotation below list involves a threat to future profits which outweighs the immediate advantage of gaining the particular order, identical tenders may be received from all suppliers without any collusion among them.

In the case of some commodities it is clear from experience in earlier inquiries and studies of price behaviour that identical tenders by themselves do not necessarily indicate that arrangements among suppliers exist. In such



cases some additional factor which would in the absence of agreement tend to produce divergent quotations must be present to warrant the initiation of a formal inquiry under the act.

It should be observed, however, that such clear distinction is not always present. In some industries occupied by very few firms price behaviour has become so conventionalized that agreement which may be undue within the meaning of the act can be achieved with a minimum of consultation among competitors. It is perhaps in this area that the director is confronted with the most difficult decisions as to whether or not the evidence before him is such as to justify an inquiry.

This position I have stated publicly on previous occasions. It will be appreciated that it applies only in particular circumstances, namely, where there exists a small number of suppliers of a homogeneous product and where there is nothing unusually attractive about the order subject to bidding. Nearly all the reports of identical tenders received in the course of a year relate to such a situation; where such circumstances do not exist, however, and identical tenders are received in connection, for example, with a construction contract which includes the supply of goods, or for the supply of a custom-built article, the mere existence of identical tenders would of itself be sufficient to give rise to an inquiry.

Hon. members will appreciate from what I have said that this is a most sophisticated and difficult matter. The director is always on the horns of a dilemma in face of identical tenders because his task is to decide which are the cases that result from collusion and which are not. It is essential that each case be examined on its own facts, in the light of economic conditions in the particular industry concerned and of the considerable body of information available to him in the combines branch about the operations of that industry. Each complaint of tendering practices is dealt with in this way.

I have publicly urged buyers for governments, federal, provincial and municipal utilities and other public agencies to report to the combines branch tendering practices, including identical tenders, that they consider may result from collusion. Such reports are continually received and all are examined. I suggest that it is important that public buyers should not lose sight of the fact that collusive tenders are more likely to result in non-identical bids than in identical bids and while all should be reported, areas of collusion should not be overlooked through a preoccupation with identical tenders.

Without disclosing any detail, I may say that we have in progress at the moment a number of inquiries that concern collusive tendering practices, some of which include identical tenders.

The CHAIRMAN: Thank you, Mr. Henry. Before anybody puts any questions, possibly Mr. Henderson might like to make some comment, and for the balance of the time we can discuss it through questioning by members.

Mr. HENDERSON: Gentlemen, it continues to be my view that progress could perhaps be made in this difficult and rather complex area if some consideration were given, for example, to the suggestion that I made in paragraph 114. that the names and amounts of identical tenders received by the federal government agencies be made public in Canada; if not by the director of the combines investigation branch in his report under the act, then through some other appropriate means.

Although I have not made any detailed study of the number or nature of all tenders of this kind received during the past year, that is during 1962-63, you will recall that I told the committee last Monday that treasury board itself has expressed concern to departments that equally low bids in respect of a number of products seem to be frequently coming to its attention. Now,

treasury board has indicated its intention of giving further consideration to this matter. In point of fact, on November 14 last the board decided that a uniform policy should be established, and accordingly directed that in future when identical bids are received all proposed contracts, regardless of amount, should be referred to the board for selection of the contractor. The board stated, as I think Mr. Southam mentioned the other day, that the only products exempted from this procedure are milk products where prices are controlled by provincial authorities. I think Mr. Nowlan referred to this in our discussion on Monday.

Mr. Henry has explained how his office is examining cases which are brought to his attention. I would say to the committee that it is my opinion that further checking in these particular areas should be carried out before we can be fully satisfied that the federal government purchasing agents are not being overcharged. Moreover, I think I should tell the committee that one of the reasons why I have repeated this suggestion again this year is because in our test checking during the past year we noted one case where the managements of several reputable companies in one important supply area came forward voluntarily to refund a substantial amount of money to the government department concerned covering amounts they said had been charged to the department over a five-year period in excess of prices which should have been paid under what were described as conditions of true competition.

You will, I am sure, understand my position as your auditor when, in noting cases like this I naturally wonder what the over-all situation is, because my approach can only be a test checking approach. It is not a 100 per cent check of all transactions. Full details of this particular case were, of course, supplied to Mr. Henry's office. I felt that this was an example of which you should know because I have not brought this subject up lightly. I can tell you that I find in our general work that the operations of the federal government purchasing officers are most punctilious and carefully handled and I think they have every reason themselves to ask the same questions in this area.

The CHAIRMAN: Are there any questions on this particular subject?

Mr. ROCK: For how many years have you worked for this department?

Mr. HENRY: I have been associated with the combines branch since 1960 only; I have been in the Department of Justice proper since 1945.

Mr. ROCK: Have you ever seen the price list for lamps of the General Electric Company or the price list of Westinghouse or of Sylvannia?

Mr. HENRY: We have them all.

Mr. ROCK: Have you got those price lists for the back years on file?

Mr. HENRY: We have not got them all for the previous years. Of course we have access to them if they are still in existence. We certainly have the current ones and some older ones as well.

Mr. ROCK: Is there very much difference in the prices of the standard type of lighting, not these little lighting fixtures that are hardly ever purchased but I mean the 24 inch fluorescent or the 48 inch fluorescent or the 25, 40, 60, 100 or 150 watt light bulbs?

Mr. HENRY: As between the competing companies?

Mr. ROCK: Is there much difference in price?

Mr. HENRY: The prices are all the same.

Mr. ROCK: Do you not believe you have enough proof that they have arranged their prices in the first place and then submitted a tender to the government, possibly by a phone call or by other means, when they say "we can only go 10 per cent lower than our price list," or whatever it is? Is this not in a sense a combine or an arrangement?

Mr. HENRY: If I thought it were, I would be in there immediately.

Mr. ROCK: I think it is, I do not know why you do not think so.

The CHAIRMAN: Mr. Henry said he will explain his viewpoint on this.

Mr. HENRY: If you would like me to explain how this might come about, I would say first of all that the price lists are all published. They are common knowledge. It is conceivable of course that discussions may take place between people on the telephone, and this is something which, if it occurs, and unquestionably occurs in some parts of the industry because we have detected it, it is very difficult to discover when you have a published price list for a common commodity, such as electric lamps. This will apply to a number of commodities which I would be very glad to describe to the committee if that would be helpful, because you find this happening in certain fields. When the price leader or the man who comes out with his list first, publishes a new price, you may find—in fact you probably will find—a period of settling down while the other lists come into line.

Bear in mind that if the lists do not come into line, then somebody is going to start losing business. Now, I have seen cases where in the same kind of commodity that we are talking about, a homogeneous commodity manufactured to a standard, a price leader will attempt to lead the market up and the others do not follow; the leader then has to come back. A little later the price may go up, but the market at that point is not ready for it. Depending upon the state of the market and the desire to compete on price by each of the individual manufacturers and depending upon the strength of each in the market, they may or may not follow a price change made by one of the others.

Bear in mind that in the lamp field there is a very small number—you have named the main ones already—who are working in this field. Now, those people know each others minds pretty well from past experience. They know pretty well, or they say they do, the cost to each other of manufacturing this standard commodity, which is, in the case of the electrical equipment used, usually made to C.S.A. standards. They know roughly what the costs are, they know how much of a price change they can stand in order to continue to ensure adequate profits. So that if one of them changes, the others made an immediate decision whether or not to change, and this can be done without collusion. All our experience is that the electric light companies when changing prices—and I think that from the economic standpoint this is a very important area, when the price is changing in the market, not when the price has been going along steadily for some time—do not tend to come out simultaneously; they tend to follow each other, which indicates, at least prima facie that someone has looked at someone else's price list and made a decision to follow it or not.

Mr. ROCK: I agree it does happen this way.

Mr. HENRY: May I ask you to follow me one step further? If it can happen this way, I am faced with the problem of administering a criminal statute. This is criminal law, the offence of collusion is an indictable offense for which a man may go to jail, or a corporation or an individual may have imposed on him a fine in the discretion of the court without any monetary limit on that fine. Criminal courts which administer this statute are obliged by our system of law to acquit the accused if the case has not been proved by the crown beyond a reasonable doubt. I am satisfied, again beyond reasonable doubt, that were I to go into court or suggest that the attorney general go into court and show merely that the price lists were all the same, and from those price lists the tenders were made in identical amounts, the court would be bound to acquit the accused because the defence is so clear. An explanation would be given that each of the companies bidding on the order will bid from a list price. This can be done by a simple direction without any collusion at all,



because each one sizes the order up and considers his competitor is not likely to extend himself to get the order. In practice the purchasing manager, whoever he may be in each of those companies, would most likely say to the clerk who makes up the order "bid the usual way on this", namely from list.

On the orders that the Auditor General has disclosed in his last report, the government gets the best price. It gets the maximum discount which is equal to the discount that the largest wholesalers get. This is public knowledge. It is a simple calculation. You take the price of one lamp which is quoted at a few cents, let us say, something under a dollar or maybe a dollar and some odd cents, you multiply that by the number of units ordered, it does not matter whether it is a one year or two year contract or a six months contract. If the companies do not wish to break the price, and assuming they do this by an independent decision, the mechanics of working out the price are just as simple as I have explained. A clerk with a calculating machine takes the list price and he calculates the 50 per cent discount from that which the Canadian government gets.

In the case of at least two other companies there is an added discount of two per cent for cash. Incidentally, there has been a little bit of competition as the Auditor General will tell you, in that out of three companies bidding within the past year or two one of them refused to give the two per cent for cash and so lost the business while the other two gave the two per cent and one of them got it.

Mr. ROCK: That means that the government gave cash in that case?

Mr. HENRY: Presumably yes, because they got the two per cent. Now, you see what I am getting at? The calculation is a simple one from the published list price, less 50 per cent, less two per cent, it comes out arithmetically to a fixed amount. If those calculations were made, and we knew how they were made, and we found that someone in one of those companies had made an arithmetical error and carried a decimal point up or down, or made a little mistake, and we found they all made the same mistake, we would be in there because obviously one person calculated the bid, passed the bid around and they all adopted it.

To give you another case, if we found that all tenders were submitted on the same typewriter we would be in there, and we are. Now this is what I mean by something a little bit extra besides the mere identity of the tenders. Something like that will have us in there immediately, and we are there all the time when such things are disclosed.

The CHAIRMAN: Before we continue, let me say that it is now 10 to 11 o'clock. The bell will be tolling soon. Have you further questions?

Mr. RICHARD: We should bring Mr. Henry back.

The CHAIRMAN: He has already indicated his willingness to do this. It would be unfair to him and to members of the committee to try and conclude this too rapidly.

We will meet on Monday at 11 o'clock.



HOUSE OF COMMONS

First Session—Twenty-sixth Parliament  
1963

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STANDING COMMITTEE  
ON  
**PUBLIC ACCOUNTS**

*Chairman:* G. W. BALDWIN

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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 8

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Public Accounts, Volumes I, II and III (1962)

Report of the Auditor General to the House of Commons—1962

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MONDAY, DECEMBER 9, 1963

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WITNESSES:

Mr. D. W. H. Henry, Q.C., Director of Investigation and Research under the Combines Investigation Act; Dr. J. W. Willard, Deputy Minister of Welfare, Department of National Health and Welfare; and Mr. A. M. Henderson, Auditor General of Canada.

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1964



## STANDING COMMITTEE ON PUBLIC ACCOUNTS

*Chairman:* Mr. G. W. Baldwin

*Vice-Chairman:* Mr. W. H. McMillan

and Messrs.

Basford,	Lessard ( <i>Saint-Henri</i> ),	Rochon,
Berger,	Loiselle,	Rock,
Cameron ( <i>High Park</i> ),	McLean,	Rondeau,
Cameron ( <i>Nanaimo-</i>	McNulty,	Ryan,
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Crouse,	Noble,	Slogan,
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Frenette,	Regan,	Valade,
Gendron,	Ricard,	Wahn,
Gray,	Richard,	Whelan,
Hales,	Rinfret,	Woolliams—50.
Harkness,		

M. Slack,

*Clerk of the Committee.*

## MINUTES OF PROCEEDINGS

MONDAY, December 9, 1963.

(10)

The Standing Committee on Public Accounts met this day at 11.10 o'clock a.m. The Chairman, Mr. G. W. Baldwin, presided.

*Members present:* Messrs. Baldwin, Cameron (*Nanaimo*), Crouse, Fane, Forbes, Hales, Harkness, McMillan, Muir (*Lisgar*), Nowlan, O'Keefe, Ricard, Rock, Southam, Tucker, Woolliams—(16).

*In attendance:* Mr. D. W. H. Henry, Director of Investigation and Research under the Combines Investigation Act; *From the Department of National Health and Welfare:* Dr. J. W. Willard, Deputy Minister of Welfare; Dr. R. B. Splane, Director, Unemployment Assistance Division; Mr. A. M. Henderson, Auditor General of Canada; and Messrs. Millar, Smith, Douglas, Rider, Larocche, Long and Cross from the Auditor General's office.

The Committee resumed consideration of the Auditor General's Report for the year ended March 31, 1962.

Mr. Henderson tabled a statement by Mr. J. S. Larose, Superintendent of Bankruptcy, in connection with discussion of paragraph 69 concerning the Administration of the Bankruptcy Act, on December 2, 1963. The Committee agreed that this statement be printed as an Appendix to this day's Evidence. (*See Appendix*).

On paragraph 114, *Identical Tenders*, Mr. Henry was further examined and supplied supplementary information.

Mr. Henderson expressed his views on *Identical Tenders*.

The questioning of Mr. Henry being completed, the Chairman thanked the witness and he was retired.

On paragraph 84, *Unemployment Assistance*, Dr. Willard reviewed the legislation and administration of this subject, commented on the Auditor General's observations and explained decisions taken by his department.

Dr. Willard was examined and supplied supplementary information.

Mr. Henderson made a brief statement on paragraph 84 and was examined.

The questioning of Dr. Willard being completed, at 10.55 o'clock a.m., the Committee adjourned until 9.00 o'clock a.m., on Friday, December 13th, 1963.

M. Slack

*Clerk of the Committee.*





## EVIDENCE

MONDAY, December 9, 1963.

The CHAIRMAN: Gentlemen, we have a quorum; I will declare the meeting open.

Before we proceed with the paragraphs we were dealing with last Friday, Mr. Henderson, at the request of Dr. McMillan, prepared a statement from the superintendent of bankruptcy; this is a fairly lengthy statement and a copy has been given to Dr. McMillan, who made the inquiry.

If it is your wish, may we have this included as an appendix to today's proceedings?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Gentlemen, we were on the question of identical tenders which, I think, is item number 114. You will recall we had skipped over some of the items and taken this particular item because of this reference in a letter from the Minister of Justice.

Mr. Henry, with members of his staff, has been good enough to come back this morning. We were in the process of putting questions to Mr. Henry and Mr. Henderson.

The meeting is now open for any further questions or comments in respect of this particular item.

Mr. McMILLAN: Mr. Chairman, I was not here on Friday and I hope I do not ask identical questions. Could you give us any indication of how high a tender might be, when you have identical tenders? Is it all based on a unit cost?

Mr. A. M. HENDERSON (*Auditor General*): Well, the bids go out, and, when the tenders come in it is found, in considering the lowest tender, that they are identical in one, two or three instances, and sometimes more—we have seen cases up to six in number—I think, Mr. Henry has asked the departments, where such cases appear to them to involve possible collusion or if these incite the suspicions of the purchasing agents, to use their own judgment and draw them to his attention.

As I mention in paragraph 114, I noticed during this particular fiscal year approximately 100 such instances. The largest in terms of money were those referred to in my note, which related to incandescent lamps and bulbs purchased by the Department of Public Works. This is described under paragraph 114.

The Department of Public Works thought it might be possible to secure a better price if they asked for a two-year supply instead of one, and when the tenders were opened it was found the same three firms who had submitted in the previous year had again submitted identically low bids, each one in the amount of \$645,264.16. The facts of this case were placed, along the lines mentioned, before Mr. Henry, for his study and consideration.

Mr. McMILLAN: Would it be possible to get lists of these tenders, particularly the larger ones, not necessarily naming the companies but referring to them as one, two and three, in order to give us some idea of how much money is involved in these tenders?

Mr. HENDERSON: Well, any list, to be informative, even though it did not list the names of the firms, presumably should list the areas, and so far I have

refrained from either naming the firms or naming the areas, save two, the one mentioned in paragraph 114, relating to electric light bulbs and, I think, in the case of cement.

As I recommended to the committee in paragraph 114, I believe that it might be useful to give consideration to the suggestion that the names and amounts of identical tenders received by the federal government and its agencies be made public annually, if not by the director of combines investigation in his report under the act, then perhaps by some other appropriate medium. But, in light of the remarks Mr. Henry made on Friday, it seems to me that at this particular stage it would make for invidious comparisons to name either the firms or the areas. However, I stand open to correction by the committee in this respect.

Mr. SOUTHAM: Mr. Chairman, I think we, as members of the committee, can appreciate the concern that Mr. Henderson has in respect of the fact there were approximately 100 cases of identical tenders. This seems like quite a large number.

I was wondering if the witness would like to state how these compare with the number of identical tenders he may have discovered in investigating the private sector of our economy in so far as the Combines Investigation Act is concerned. Are there apparently more cases of identical tenders in our government departments? The reason I ask this question is that, knowing human nature as we do, a large number of people are inclined to cast a suspicious eye on government activities because they think since it is the government's purse we should worry!—As you know, the same attitude exists in so far as income tax evasion and so on are concerned.

I think we, as a committee, have to be quite concerned to see that the interests of the taxpayer in this respect are protected. I think we should keep a reasonably tight rein on government administration.

Mr. D. H. W. HENRY, Q.C. (*Director of Investigation and Research, Combines Branch*): Yes, and rightly so. It is a very important matter from the standpoint of expenditure of public funds.

I am not in the position, because I think we have not made the calculation, to say whether there is any difference in, say, the percentage of cases where identical tenders occur between federal purchasing departments and purchasing departments outside. We think the percentage is probably not significant but, as I say, we have not calculated a figure that we think is reliable in respect of the percentage of total tendering that might be accounted for by the identical tenders. But, I can say, for whatever use it might serve to the committee, that in the United States, following the electrical industry convictions in the Philadelphia inquiry the president ordered a wholesale inquiry of tendering practices at all levels of government. The department of justice—that is, the attorney general of the United States—undertook this. They had to take on a new staff and to acquire the services of electronic computing devices. They have carried out this very intensive study over a considerable period of time, at least over a year. The report of the attorney general revealed that only about one per cent of the total tenders examined were accounted for by identical tenders, which is a pretty low proportion.

It is my understanding that the Auditor General feels it is a small proportion of the number of cases he has seen. I regret I am unable to give a figure on this, simply because we have not calculated it. We do not see all tenders; we only see identical tenders referred to us and, therefore, without making a substantial inquiry throughout the public service which, I must tell you, would require committing some pretty hard pressed staff and additional resources to this project, otherwise we would be unable to do it satisfactorily.

However, I think that I am not far wide of the mark if I say that it would be a minor percentage.

Mr. MUIR (*Lisgar*): I notice, Mr. Henry, that you set out in your letter to the committee that collusion is more likely to result in unidentical bids. I am wondering whether the differences involve large amounts.

Mr. HENRY: The answer can be in some cases yes, and in other cases no. Our experience is this, if I can speak generally for a moment. First of all, identical tenders occur, that is tenders where the amounts are the same, in a predictable group of product lines, which I will be very glad to name, if you wish. Where you get outside those product lines, identical tenders would be cause for suspicion and would probably give rise to an inquiry on their face. But staying within the area of product lines on which you may expect identical tenders, I think it can be taken for granted that companies are not so naive as to think that if identical tenders were going to be cause for suspicion, and if they agree among themselves on what is to happen to the tenders, that is who is to get it at a particular time, they could simply be bidding identically. Our experience is that in those cases where there is collusion, there will be an agreement to obscure the fact that the tenders are being rigged and the tenders are put in in such a way that they will not give rise to suspicion. We have several inquiries going on at the moment where this had happened.

I might say that we had one instance where one of the departments, pursuant to the program of calling to the attention of our own offices examples of identical tenders, to which the Auditor General has referred, referred a complaint of identical tenders on the kind of product where you would expect identical tenders. When we went to examine the department's books, which we did the next day, we discovered that it was not the series of identical tenders that caused us concern but other tenders which we found revealed on the file of which we were exceedingly suspicious. We commenced a formal inquiry which is now in progress and we are obtaining evidence of the practice of collusion on non-identical tenders. This is what we expect to happen and we have a number of cases going where it is true there are some identical tenders involved but in the main they are non-identical.

This, I may say, was the experience in the Philadelphia electrical inquiry. It was not identical tenders that were significant there; it was tenders arranged by collusion on what was called the phase of the moon bidding arrangement. Incidentally I think the expression "phase of the moon bidding" came from the key as to who was to bid next. The figures came from knowing the phase of the moon. They went to great lengths to set up such an elaborate scheme. The tenders were not identical. This was the whole point. Let me tell you that the Department of Justice, according to the information that I have from published sources, were unable to break the key to the bidding even by the use of cryptographers, persons used to that kind of work. It was only because one of the executives who happened to have the file in his own private home which gave the key to the bidding, turned it over to the authorities. Of course it was a rotational business, because once you rig the bid you have to arrange that everybody gets his proper turn. The key was found in the personal possession and in the private house of one of the persons involved. It was the disclosure of the evidence, perhaps as a matter of conscience, to the attorney general of the U.S.A. that permitted the case to proceed.

Mr. NOWLAN: So what you are saying is that if there is collusion, it is more likely to be in the area of non-identical bids than with identical bids?

Mr. HENRY: If it is understood that I am talking about a particular economic situation where there is a small number of bidders for a reasonably homogeneous product. Would it be of help if I were to tell the committee what



our experience is in regard to identical tenders? I could give you the product lines immediately.

Mr. NOWLAN: I would like to hear that, sir.

Mr. HENRY: I will give the broad categories here and if details of the kinds of items under those categories would be of interest, I could read some of them.

Mr. MUIR (*Lisgar*): Excuse me, is that in regard to identical tenders or ones that could lead to collusion?

Mr. HENRY: I am talking about identical tenders. These are lines where we could expect, on the basis of the principle that I explained on Friday, to find identical tenders. I am not talking about collusive tenders generally, but tenders which are equal, perhaps to the cent.

The fields are: chemicals; construction materials and equipment; electrical equipment and supplies; iron and steel products; paper and paper products; petroleum products and then we have a miscellaneous group of which I pick a few at random, where we have had reports of identical tenders, such as fire hose; milk; ice cream; medical supplies; snow fencing; typewriters; fishing equipment; rubber tires; fire insurance; pencils; type metal and explosives.

Mr. ROCK: Can I interject here? I am surprised that paints are not included in your list. You will find among paint manufacturers that if one company's price list is changed, the others follow.

Mr. HENRY: The answer to that is I think quite simple. We have not had a complaint about it.

Mr. HARKNESS: Your category of construction material is very broad indeed. Would this include lumber?

Mr. HENRY: It might very well.

Mr. HARKNESS: The number of suppliers of lumber runs into hundreds in Canada. This is one field in which I think you would not have identical tenders.

Mr. HENRY: I think we have not had a case of identical tenders referred to us involving lumber, but there are other items of construction equipment, a considerable number of them, on which we have had a number of instances.

Mr. McMILLAN: I was wondering whether you have ever had an opportunity to compare these identical tenders with the tenders of contractors which supply other purchases.

Mr. HENRY: No, not if you are referring to non-public purchases, if I can put it that way. It would be a considerable task to obtain such information. We would have to broadcast an appeal to various large buyers of this kind of equipment and material and ask them to submit the information to us. Short of running a full scale inquiry, which would require committing resources that we could not possibly afford at the moment, we could not get that information. Our information does come from public buyers.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Public buyers at different levels of government, provincial, municipal and so forth?

Mr. HENRY: That is right particularly municipal, and the utilities.

Mr. WOOLLIAMS: Is it not possible, even in other commodities which are being supplied at government levels in carload lots where the company is selling, the manufacturer charges all the companies the same price; they pay the freight to a certain particular spot and there is a mark-up of 5 per cent so that you could get a legitimate tender in any commodity under those circumstances at the same price?

Mr. HENRY: This is true, but we would have to look at each case. I would not like to give a general assurance to this committee, even in the categories where I have mentioned identical tenders can be expected, that there is nothing to worry about. My job is to be sceptical, if I may put it in this way; I think I must bring a healthy scepticism to bear on tendering practices. We know, as you have suggested, there might be identical tenders which are completely innocuous. We would look at each case. We would size up the economics of the industry. We do this in respect of every report of identical tenders which we receive. We first have the economics of the industry and we draw on the considerable knowledge of the combines branch in respect of those industries.

The electrical industry which has given rise to much of this discussion is an industry of which we know a very great deal. I assure you we could tell you how much we have been into the electrical industry in the past few years. So, in answer to your question I would say there are areas, perhaps outside the product categories I have mentioned, where the bidders are bidding very closely, and where for some reason there is no great incentive for them to compete on price. So they are not competing on price and yet it could not be said there is collusion. However, I would like to look at the individual case before I say whether or not I think there is any likelihood of there being evidence of collusion.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Mr. Henry, earlier you mentioned that while cases of identical bids would not amount to very much, fortunately; possibly the greater danger in respect of protecting the public purse would come not from identical bids, but from collusion. I presume this is the same sort of thing which used to prevail—we do not see it prevailing now—in my own province of British Columbia; a particular firm would get a certain highway job, not because it came within a straight rotation, but a slight phase of the moon effect.

Mr. HENRY: Yes.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Have you done any investigation in respect of the pattern of successful bidders?

Mr. HENRY: Indeed we have, and we have some inquiries going on now where that sort of situation happens. One of the things which perhaps you might bear in mind is when a municipality sends in a report of identical tenders they never think to send us a record of the tendering which has taken place over the past five years. This might be one out of 20 which has been identical, and they selected this. They are disturbed when we write back and say this does not seem specifically significant to us.

If we think we should make more inquiries because we are suspicious, then we would ask for this information. We would make an intensive inquiry precisely of the kind we made about two years ago. This was what I call a preliminary inquiry. It was designed to indicate to me whether I had reason to believe there was an offence. I did it in the wire and cable field. I mention the name of the product, because the president of the Canadian Electrical Manufacturers Association announced to the press that I had a formal inquiry going on in this field. I can give you the results of our analysis if they would be of interest, because wire and cable is one of the areas characterized by identical tenders. If we give this information, it might answer some of the points Mr. Cameron mentioned. Should I?

The CHAIRMAN: Yes.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Yes.

Mr. HENRY: I had some of the analysis written down. I might read what we found.

Some years ago, members of the industry—characterized by a relatively small number of manufacturers of a homogeneous product—were convicted of charges involving price fixing contrary to section 411 of the Criminal Code. The conviction of the wire and cable industry antedated by something like six years the Philadelphia electrical inquiry. We had cleaned up this very industry in Canada six years before they did it in Philadelphia. We had detected exactly the same kind of practices, all of which now is old history. We did it considerably before it was done in Philadelphia.

This industry, as well as being convicted, was subjected to a prohibition order; that is, a permanent injunction against continuing the practices leading to the repetition of the offences. In accordance with our general policy of making a continual survey of identical tendering practices, in addition to the normal program, we undertook a particular survey and analysis of tenders made to municipal and private utilities in the first quarter of 1961 by the ten leading members of the industry in Canada. In this survey of bidding practices, we obtained for examination a copy of the last 20 tenders made to municipal utilities by the companies concerned before March 1, 1961, a copy of the last five tenders made to the three largest utilities in eastern Canada, information showing in detail how all the prices concerned had been made up together with copies of the price lists used in doing so, and copies of all correspondence between the companies and wholesalers, wherever such wholesalers had quoted as intermediaries. A representative number of tenders thus were examined, so as to verify the basis of pricing upon which they were made to see whether any pattern of bid rotation or other collusion could be detected.

Most of the tenders which were examined dealt with bids on orders involving two or more items. We obtained a total of 265 tenders, including 46 groups involving more than one company. In all cases the supporting price lists and explanations were provided. The following conclusions were derived from our analyses of the information: first, the companies normally tender on the basis of conformity with their published price books which are, in fact, although not in language and organization, virtually identical with each other. Secondly, during a period of price change, before the price followers catch up with the price leaders, tenders sometimes are made which vary substantially. The companies do not change provisions in their price books simultaneously. Thirdly, when quotations have been made by wholesalers, they usually have been made on behalf of the manufacturers who quoted the price book prices to the agent and allowed him a commission.

You understand, sir, that a practice has developed, particularly in some large municipalities, where a manufacturer will put in a bid, but because municipalities frequently like to give the business to a local firm they will also have a local firm put in a bid as well. That firm will not be bidding independently but as an agent of the manufacturer; the manufacturer is quite at liberty to tell him what price to put in. Sometimes this will have the effect of doubling the number of bidders, but in fact you might only have three whereas you might think you have eight because the agents also are tendering locally.

Fourth, in the case of nine groups of tenders to the three largest buyers, three were identical and completely in accordance with the price books, five were different in price and one was different for some items and identical for others. No pattern of collusion could be detected. Sometimes the differences in price arose from company policy to allow the local manager discretion to increase the discount from list prices; sometimes the differences arose from ambiguity in the price book instructions between companies; sometimes there were minor differences in these instructions. In one instance a company sharply cut a price because it had lost a prior order as a result of following



its price book. Sometimes the price difference occurred because the lists of different companies had not yet become identical during a transitional period from one pricing basis to another. Taking these instances as a whole, there was more price competition than price identity.

Fifth, of the remaining 37 groups of tenders, 12 were completely identical, 12 were completely different, and 13 were partly different. In some of the instances where differences existed, one or other of the companies departed from the price book "to meet past competition" in respect of a particular item. In some, the specifications were such that the price books did not completely cover them and different ad hoc calculations resulted.

Some companies made a mistake and either applied the price book incorrectly or bid on the wrong item. There were some minor differences in the price books in connection with charges for extra or unusual operations. There were differences during transitional periods between price changes before the price books reached identity or near identity. On a few items the companies were not completely standardized in their specifications and there were price differences on this account. Again, competitive discounts were sometimes quoted from the list prices. Companies also quoted alternative specifications from those put out by the utilities and sometimes these alternatives were acceptable. Minor differences also resulted from rounding out figures.

After careful consideration of the results of this survey, I concluded that there was no evidence that an offence against the Combines Investigation Act had been committed in submitting these tenders. I did not feel justified in pursuing a formal inquiry from that point on.

It is also of significance that certain of the leading companies have taken steps within their own organizations to prohibit their employees from engaging in discussions with competitors which could lead to breaches of the Combines Investigation Act and the prohibition order. Penalties, including dismissal, have been provided for breaches of these instructions and internal arrangements have been made for the periodic renewal of the rules and for continuing educational programmes in connection with them. Having in mind all these facts, it would seem that there are considerable safeguards for the public against the renewal of collusion in the industry. I am speaking of the wire and cable industry.

Mr. MUIR (*Lisgar*): I would like to go back to these non-identical bids. Government departments do not always accept the lowest tender. I was wondering if these non-identical bids might not be made on products which are not identical or of a kind which did not involve quality.

Mr. HENRY: This may well be. If you have a very common article—let us say salt for spreading on the road during winter time, a very common and very basic article—there is very little difference between one manufacturer's supply of rock salt and another's. Of course a brand name means nothing whatsoever to a municipal purchasing agent. Is that what you have in mind?

Mr. MUIR (*Lisgar*): Yes. I wondered if you would get non-identical bids on that type of thing.

Mr. HENRY: This is a typical case where you might expect identical tenders to come in fairly regularly because the bidding would be from a published list, and the question would be to determine in a particular case whether there was any reason to believe identical bids in the first place are collusive or non-identical bids are collusive. The difficulty is that if the bids were non-identical it is altogether likely that a municipality would not refer those bids to us, because there was no reason for suspicion.

Mr. ROCK: After reading part of that report, I see that most of the cases which you had were from a couple of manufacturers. Do you not feel you

would have a better case at this moment against the light bulb manufacturers with more or less evidence than you have now? You say there are only about three manufacturers in Canada, yet here you have a larger number of cable manufacturers. Do you think that with those three manufacturers you would have a better case than you had with the wire and cable manufacturers?

Mr. HENRY: First of all you must understand that so far as the light bulb situation is concerned, there must be a complete examination of the situation. I would say that our case is probably more clearcut. I think, on the principle that I explained on Friday, where the light bulb manufacturers are concerned—because there are only three—that if collusion does take place, it is much easier to arrange it in that case than among ten.

Mr. ROCK: Oh yes.

Mr. SOUTHAM: I would like to make this observation on the subject of identical tenders. Having heard Mr. Henry, I feel that he has done something to reassure the committee and the public who read this evidence that this whole problem of administering the Combines Investigation Act is an intricate one and is being done efficiently. I think it is reassuring after listening to Mr. Henry's testimony to realize that there is a lot of protective work being done. I find it very helpful. But what I am concerned about now is Mr. Henderson's problem in bringing this to our attention from the public accounts point of view. Would Mr. Henderson like to suggest anything which would be of help to us and to the public in the way of recommendations we might make to the government which would help in combines investigations so that it might become more effective or satisfactory?

Mr. HENDERSON: I agree with you that this has given us an excellent opportunity to hear about the work Mr. Henry and his associates are doing. I think he has explained his approach very well. My concern, as I have explained in my note, has been more from the standpoint of the purchasing agent in our public service whose work we find both conscientious and commendable. Our feeling is that the auditors who have reason to be curious about the incidence of identical tenders are performing their functions when they bring them to attention; and if they feel that their suspicions are well founded, then they should bring them to the attention of Mr. Henry's department for further investigation.

I think that this approach on the part of the purchasing agents is important, and that this approach should be supported because it is public funds that we are discussing. The only practical means that I can put before you on how this can be supported has been the suggestion I have made that in the case of identical bids on tenders—which are accepted in order to obtain supplies for the public service—you may see fit as a Committee to recommend that they be listed and made public on an annual basis through some appropriate medium. I grant you this does not bring to light cases where this phase of the moon pattern may exist. How to grapple with that is another problem, but not an unrelated one. Generally, I feel that you might want to put first things first. I consider making the names and the areas and the amounts public and then seeing how many come to be listed is the first step.

Mr. SOUTHAM: I am glad to hear you repeat that, Mr. Henderson, because I feel we are spending a lot of time in this committee and we want to perform our functions to the best of our ability in bringing in these recommendations in order to meet the whole situation.

Mr. HENDERSON: Mr. Southam, I might go on to explain that I, of course, discussed this suggestion on my part, which is my own, with Mr. Henry, but thus far he has felt that this was not a practice that he could support. If such a decision were to be made, I think he said he felt it should be one for the

government to take responsibility for as a matter of government policy. That, of course, would be the case if this committee saw fit to make such a recommendation. Possibly Mr. Henry himself would like to say a word in this regard.

Mr. HENRY: Mr. Chairman, I should like to explain again why I wrote the letter to the Auditor General that I did write. It came about after we had some very amicable and full discussions about the matter.

I should also like to make it clear that I am in no way objecting to the publication of the names of firms that have submitted identical tenders. What I am concerned about is that they should be appended to my annual report, which I think inevitably would be taken by the public as being a backhanded attempt to smear the companies concerned by implying that there was something irregular under the combines act about the identical tenders.

My feeling would be, if this is to be done it should be done in some more impersonal way, in some other report and not one which is, so to speak, a report which is inevitably emotionally charged, depending upon which side of the fence you happen to be sitting on when you look at this report. That is the only point I have, and I would have thought that, while I do not think I discussed this with the Auditor General, perhaps these names could be included in his report, or in the public accounts.

The CHAIRMAN: Perhaps we could ask Mr. Henry whether his office is the only office through which there is obtained an over-all picture regarding identical tenders. You receive reports from all purchasing agents of all departments, and your office is the only office which has a comprehensive picture of all these identical tenders; is that right?

Mr. HENRY: That probably was so in the past, Mr. Chairman, but I understand that the treasury board has now issued instructions that all such tenders, even in the case of tenders for amounts which are so low that they do not normally come to the board, are in each case to be submitted to the treasury board.

Mr. HALES: I think we have had a good discussion in this regard this afternoon. No doubt we will be going over this again before we write our recommendations and present them to parliament, but just before we close off I was wondering, in respect of any government purchases where you have received identical bids, did you go back to the two or three firms and require them to re-tender or what has happened?

Mr. HENRY: This has happened, and as the Auditor General pointed out, it happened in the case of the electric light bulbs for the Department of Public Works. Identical bids came in again on the second invitation, if I am right.

Mr. HENDERSON: That is correct.

Mr. HALES: Was that the end of the situation? They did not ask for a third tender?

Mr. HENRY: No.

Mr. HENDERSON: Perhaps I might add a very brief comment in respect of Mr. Henry's remarks about publication.

It is possible perhaps that, if the committee sees fit to recommend that identical tenders be made public, something could be worked out with the treasury whereby the information could be listed in our public accounts. This would of course, involve standard instructions going to the various departments in order to make sure that the correct information flows back.

Mr. CROUSE: Just what purpose would that action serve? We have already had a clear and frank discussion, and Mr. Henry has provided us with information indicating the reason for identical tenders. I am satisfied with the reasons given for identical bids on the part of the firms mentioned, but I question the



wisdom of printing this information unless there is some specific purpose to be served. What purpose would be served by printing this information?

Mr. HENDERSON: I would hope that the purpose to be served would be to provide a reassurance both to the treasury and the purchasing agents of the public service that in acquiring the supplies the government needs they are being purchased for the lowest possible amount of public money. That this is being achieved might conceivably be reflected in a reduction year by year of the number of identical bids that come to be listed in this way.

I also mentioned, Mr. Crouse, how I have been concerned during the past year in noting how the managements of several reputable companies in one important supply area came forward voluntarily to refund a substantial sum of money to the government department concerned covering amounts which they said had been charged the department over a five year period in excess of the price which should have been paid under what were described as conditions of true competition. That was a voluntary settlement. How many other such instances there would be I do not know, because I do not undertake a completely detailed check. My work is essentially test verification, as you know. It seems to me that such public listing might go a long way toward clearing the air in this matter.

Mr. CROUSE: My only other comment would be that this point is one that I believe the committee should take under advisement and consideration when writing its report.

The CHAIRMAN: We have a decision to make.

Mr. Muir has a question, and then Mr. Rock.

Mr. MUIR (*Lisgar*): I think this brings us back to the phase of the moon type of bid, which is not going to be shown up in any public statement and which I think is perhaps more insidious than the identical type of bid.

The CHAIRMAN: We will have to canvass back and forth. If there are any more questions while Mr. Henry is here we should perhaps have them now.

Mr. ROCK: You are actually recommending that this committee should submit in its report that this list of manufacturers should be published?

Mr. HENDERSON: Yes, it is my recommendation for the reasons I have stated, and I hope it will be yours.

Mr. McMILLAN: Will a motion be in order?

The CHAIRMAN: I think possibly, Dr. McMillan, this might well be the subject of our discussion when we meet in camera to prepare our report. We will then have had the opportunity of reviewing this evidence in the meantime.

If there are no more questions I am sure you would like me to say on your behalf that we all appreciate the fact that Mr. Henry has come here on two occasions and given us the benefit of his opinions and experience. I am sure we all appreciate that, and we thank you for the time you have taken.

Mr. MUIR (*Lisgar*): Before we close off—and I do not want to delay the proceedings—I wonder if Mr. Henry could tell us how we could catch up on the other type of bid. Does Mr. Henry feel there is any possible way of pin-pointing these non-identical bids which perhaps could show collusion? Is there any way in which this could be done in the report?

Mr. WOOLLIAMS: I do not want to interrupt, but he would not only have to show that you have to investigate it but he would have to show that all collusions are illegal, and that is a pretty wide field.

The CHAIRMAN: Mr. Henry has specific directions and the act gives him ample authority. I think this will come under his jurisdiction until Mr. Henderson might show that non-identical bids are being reflected in government purchase.

Mr. HENDERSON: If this support can be given to our purchasing agents I have every confidence that they will themselves continue to play a strong part in bringing such cases as you mention to light because of their close familiarity with the suppliers in the field where they purchase.

Mr. MUIR (*Lisgar*): That should be satisfactory.

The CHAIRMAN: Thank you, Mr. Henry.

Gentlemen, we are back on items 74 and 75 but not knowing how far we would go I took the liberty of asking Dr. Willard, the deputy minister of Welfare of the Department of National Health and Welfare, and some of his staff to come here to deal with a problem which is a fairly important one and which is stated at page 34, paragraph 84, that of unemployment assistance. If it meets with your approval, I would suggest we stand the other items which can be dealt with by Mr. Henderson alone and pass at once to paragraph 84 while Dr. Willard is here with his staff.

84. *Unemployment Assistance.* In paragraph 74 of last year's report, the audit office opinion was restated that the Unemployment Assistance Act, administered by the Department of National Health and Welfare, includes ambiguities which have resulted in varying interpretations, and that the text merits further consideration. Our examinations during the year under review have served to confirm this opinion. It is understood, however, that possible changes in the legislation and the use of regulations are currently under study by the Department.

OVERPAYMENTS TO CERTAIN PROVINCES.—Of the several overpayments reported last year, the amount owed by the province of Nova Scotia was determined to be \$52,000 and final adjustment was made during the year. Also recovered was the remaining \$45,000 owed by British Columbia.

In Quebec the final adjustment in respect of discrepancies referred to in last year's report and which related to the period from July 1, 1958 to September 30, 1959, is still under consideration; meanwhile, \$731,000 has been recovered. Overpayments for the period October 1, 1959 to March 31, 1960 are estimated at \$338,000. The bulk of the overpayments was caused by confusion in interpreting the sections of the act and agreement dealing with homes for special care, either the homes or the inmates not being eligible for a variety of reasons.

A preliminary review of the claims from the province of Quebec for the period April 1, 1960 to December 31, 1961 indicates that there has been a substantial overpayment, \$127,000 of which was recovered in October 1962. In addition to actual disbursements, the province included in monthly claims amounts to cover assistance provided by homes for special care and welfare agencies not yet included by these bodies in their claims to the province. This practice appears to circumvent the provisions of section 13(a) of the agreement under which reimbursement claims from the province are disqualified if made later than six months following the last day of the month to which they relate. Also, under this procedure it would not be possible to comply with section 5 of the agreement which requires each claim to indicate the total number of persons assisted during the month to which the claim relates and the total amounts paid on behalf of such persons.

The arrangement noted last year whereby the audit services division of the office of the Comptroller of the Treasury has been assisting the provincial auditor of Quebec continues. The practice followed in other provinces whereby the provincial auditors' examination of claims and

certifications in accordance with the agreements precede separate examinations made on behalf of the federal government will, we understand, be implemented once the joint audit has been completed to December 31, 1961.

**HOMES FOR SPECIAL CARE.**—With regard to the cost of maintaining needy persons in provincial or municipal homes for special care, there continues to be a wide variation from province to province in the elements of cost entering into the calculation of monthly accommodation rates. Also, it has been difficult to determine and apply the limitation on accommodation rates for homes for special care imposed by section 7(a) (iv) of the agreement; that is, payments claimed are not to exceed what an individual might reasonably be expected to pay for accommodation of a comparable kind and quality in the same location. For example, in Quebec considerable confusion has arisen because, under the province's distinctive financial arrangements with homes for special care, it is extremely difficult to determine what a person might reasonably be expected to pay. With respect to provincial or municipal homes falling into the category of homes for special care, this limitation is usually replaced by the inmate-day-cost basis. In one Prince Edward Island institution a monthly rate calculated on this basis and shared by Canada was \$118; yet until January 1, 1962 when it was raised to \$120, the monthly board rate for this institution approved by provincial order in council was \$90. The rate shareable by Canada is open to question as it could be contended that the amount a person might reasonably be expected to pay pursuant to section 7(a) (iv) of the agreement, and therefore shareable by Canada, is the approved board rate.

Another provision of the act and agreement relating to homes for special care is that unemployment assistance costs may not include payments to or on behalf of inmates of homes for special care who would normally be cared for in certain institutions, and among those listed are chronic hospitals, mental institutions and institutions for incurables. No satisfactory criteria have yet been developed to distinguish clearly between patients who would normally be cared for in such institutions on the one hand, and in homes for special care on the other. Indeed in the administration of this act it appears doubtful that the term "institutions for incurables" has any precise meaning, and it is not defined.

**WORK FOR RELIEF.**—In last year's report reference was made to claims by some Ontario municipalities where recipients had been required to work in return for assistance given them. The department concurred in our opinion that such assistance was not shareable under the agreement and during 1962 recovered \$32,300 from the province in respect of this assistance. However, after discussions with the province, the department believes that the practice is not widespread and has decided that attempts to determine its extent in some 900 other municipalities throughout the province would not be practicable in view of the expense and inconvenience the province feels would be involved.

**SUPPLEMENTAL ALLOWANCES.**—In last year's report (paragraph 74) we commented that the Department had agreed that supplemental allowances normally excluded under section 4(2) of the act could be regarded as additional relief payments in accordance with section 4(3) (b) of the act and section 8 of the agreement when they are based on an individual budgetary assessment of need in which basic expenditures as well as income are considered. We also expressed doubt about the way in which the assessments had been made in British Columbia. Our doubts were confirmed by our review of the accounts for the period



from September 1, 1960 to July 31, 1961 and by the findings of the audit service division of the office of the Comptroller of the Treasury. Their interim report disclosed overpayments estimated at \$111,400 which were recovered during the year.

In addition, we noted two different scales of maximum basic assistance being applied, the more generous one being for those eligible for supplemental allowances. Although need may vary to some extent from person to person or from region to region, it would seem that a person's needs should not be considered automatically to increase after eligibility for supplemental allowance has been established. Also, if these allowances are permitted to be claimed as unemployment assistance, the propriety of maintaining the three year residence requirement for former resident of other provinces is open to question, because section 4 of the unemployment assistance agreement specifically excludes length of residence as a condition for receipt of assistance by these applicants. It would seem that uniform standards of assistance should be applied if supplemental allowances are to be considered shareable under the Unemployment Assistance Act.

**MOTHERS' ALLOWANCES.**—The Unemployment Assistance Act provides for the exclusion of recipients of mothers' allowances, a provincial scheme to assist mothers whose families have been deprived of the wage earner. As it was envisaged that such cases would be shifted from the mothers' allowance program to general welfare and claimed under unemployment assistance, as indeed has happened, provision was made in the agreement for an amount to be deducted from the provinces' unemployment assistance claims to compensate the federal government for sharing in the cost of what was provided formerly through the provincial mothers' allowance program. However, there is a time lag built into the formula for calculating the deduction which results in the sharing of the equivalent of full costs of the mothers' allowances for a year before the deduction becomes fully effective. While the financial consequences may be insignificant if a few mothers' allowances cases are included in the general social assistance caseload, what may not have been contemplated was the effect that would be produced were the entire mothers' allowance caseload merged with the general social assistance caseload within a short period, as has occurred in some provinces. If the remaining provinces follow this pattern, unemployment assistance costs will increase very substantially in the year or so before the deduction becomes fully effective.

It has also been observed that in some instances the merger of the two caseloads is artificial in that the mothers' allowance type of case is preserved within the framework of general social assistance and sometimes singled out for special treatment. It is doubtful if this was intended by the legislation.

**STRENGTHENING ADMINISTRATIVE CONTROL.**—Ambiguities in the act and resulting varying interpretations at the federal, provincial and municipal levels make the department's administration of the unemployment assistance program unnecessarily difficult. Following consultation with officials of the department, we have suggested that the act could be more effectively administered were the department to assemble its own internal audit group to take responsibility for the verification of unemployment assistance costs claimed by the provinces. Such a group, experienced not only in auditing techniques but in the special requirements of this legislation, should be able to provide the day to day liaison with the provincial and municipal governments that the department requires to anticipate and prevent, or resolve, difficulties in administering the

program so that substantial overpayments do not arise. This suggestion is in line with the general proposal advanced in paragraph 18 of this report regarding greater use of internal auditing staffs by departments.

As I have said, Dr. J. W. Willard is the deputy minister of welfare in the Department of National Health and Welfare and he has with him a member of his staff, Dr. R. B. Splane, who is the director of the unemployment assistance division of the Department of National Health and Welfare and Mr. R. Rouleau, Assistant Director of unemployment assistance.

To open the discussion of this item I will ask Mr. Henderson for a brief comment.

Mr. HENDERSON: There are actually five paragraphs dealing with the Department of National Health and Welfare, starting at paragraph 83 and continuing through paragraphs 84, 85, 86 and 87.

Only paragraph 84 deals with what we describe as the welfare side of the work of the Department of National Health and Welfare. It is a particularly important paragraph, dealing as it does with the Unemployment Assistance Act. You will find this on pages 34 to 37 of my 1962 report, and you will see it covers six important aspects of the act.

Our work here is the responsibility of Mr. Douglas, my supervisor in charge, and I should like to commend to you the clear way in which he has explained the problems we encounter in examining the administrative results of this legislation. I do not propose to repeat what has been said in our comments on this item or to discuss the many problems involved. We have Dr. Willard the deputy minister of the welfare department of the Department of National Health and Welfare with us this morning and he can do this much better than I. However, on the basis of our experience I would emphasize that I am of the opinion that consideration should be given to redrafting the Unemployment Assistance Act to more clearly state the objectives, clarify ambiguities and better coordinate federal-provincial efforts to assist the needy. I hope this opinion on my part will commend itself to you after you have reviewed the matter with Dr. Willard.

The CHAIRMAN: Dr. Willard.

Dr. J. W. WILLARD (*Deputy Minister of Welfare, Department of National Health and Welfare*): Mr. Chairman, gentlemen, I appreciate this opportunity to discuss with you the Unemployment Assistance Act, and in particular the comments which are raised by the Auditor General. It is very helpful to us in the administration to have the close cooperation of the Auditor General in terms of problems that have arisen, things that he has discovered about the administration and brought to our attention, and the fact that he has put before parliament his views on a number of these very important questions.

To start off, I might give very briefly a little background on the legislation and then deal with the points which have been raised in the report.

As you know, while the title of this act is the Unemployment Assistance Act, in fact it is a general assistance program which relates to needy persons of a wide variety of types. The federal government shares these payments on a 50-50 basis. But, there are certain exclusions. For instance, we do not share the cost of administration by the provinces. Payments on behalf of mother's allowance recipients are, for the most part, excluded. Medical, hospital, nursing, dental, drugs and funeral expenses are excluded. Persons receiving institutional care in chronic and general hospitals, T.B. sanatoria, mental hospitals, orphanages and child welfare institutions are excluded. But, it is important to note the legislation does provide for sharing the cost of care in what are designated as homes for special care, which means nursing homes, homes for the aged and hostels for indigent transients.

These features were set out in the 1956 legislation. Another element of that legislation was a threshold whereby below a certain assistance level the federal government would not share, and in 1957 the legislation was amended, removing this threshold. It was 0.45 per cent of the population in a province. This number was calculated, and then that number of persons was deducted from the assistance load. With the removal of that threshold a number of persons felt that they would then participate in the program; in other words, it had an influence on the decision of two or three provinces, including the provinces of Ontario, Nova Scotia and Alberta, joining the program.

It should be noted that the type of eligibility generally employed under this program is a needs test. Under this the administrators in the provinces have to consider not only the income and resources of the individual but also the types of budgetary requirements. This is a different kind of test from the one under the three so-called categorical assistance programs, old age assistance, blind persons allowance and disabled persons allowance, where a means test is applied. A means test relates only to income and also to property which is translated into income. So, we have a special type of eligibility test.

Another thing that should be noted is the type of cases covered. It deals with recipients who are in their own homes and in homes for special care. It deals with unemployed persons who are employable, but it also covers unemployable persons, persons unable to work.

For instance, it covers disabled persons, people who for one reason or another do not come within the definition of being permanently and totally disabled and, therefore, do not get on that program. They may be in need, may be partially disabled or temporarily disabled and, therefore, they receive assistance payments through this program rather than through the program for the permanently and totally disabled. As an example, some of the provinces have introduced legislation designating assistance payments for widows and unmarried women from the ages of 60 to 65. We share the cost of that under this unemployment assistance program. So, there is quite a wide variety of types of cases covered.

Now, the reason why the program has considerable importance is, among other things, the level of the cost. It is a very expensive program, we are running now a level of about \$108 million in this fiscal year, and that is just the federal share. These costs grew because of a number of factors and, of course, the removal of the threshold added to the cost.

As the different provinces entered the program the cost mounted considerably. The provinces of Ontario, Nova Scotia and Alberta came into the program in 1958 and, in 1959, the province of Quebec came into the program. The extension of coverage under the programs on the part of the provinces, such as the programs for widows and unmarried women, which I mentioned, has been a further factor. The case load, and to a lesser extent the costs have been increased by a feature of the Act mentioned by the Auditor General, that permits a province to shift cases from a mothers' allowance program to a general assistance program. When the provinces take this type of action they can, in effect, have the costs shared by us for one year during the transition period before the deduction clause in the Act takes full effect. The fact that all the provinces now, except Quebec and Prince Edward Island, have shifted either in part or in full from the mothers' allowances program to a general assistance program for these types of cases, has meant that we have to include in our case load figures for the mothers' allowances cases, even though we do not share in them. This has inflated our case load which, as you know, is up around 700,000, from 90,000 to 100,000 recipients. In looking at the numbers of persons covered one must realize that we cover this wide variety of cases; that we have the dependants, children and others,



of the recipients in the case load and that we include former mothers' allowances cases to the extent of 90,000 or 100,000 even though we may not be sharing in them. In addition, the costs have been rising because they are influenced by increases in rates of payment which are left to the discretion of the provinces under this bill, and to the level of unemployment generally. Finally, this program also provides for supplementation of other programs. If a recipient of old age security or old age assistance, disabled persons allowance or unemployment insurance, is unable to live on the benefits received under those programs he can apply for additional assistance, and that supplementation would be shared on a 50 per cent basis by the federal government. In April of 1963, we had about 92,688 people who were counted under other programs but were also receiving supplementation under this program.

In March of 1963, we had 754,164 persons covered, which was the high month for the year. The low month was July 1962, 578,758 persons. That meant a monthly average of about 653,533 persons. The total expenditure in 1962-63 was running at about \$96.1 million. The highest monthly rate during the last fiscal year was about \$9.1 million in March, 1963, and the lowest was about \$7.1 in July, 1962. The average assistance payment per person in April, 1963, was \$25.25, which varied from about \$11.05 in New Brunswick to about \$31.33 in British Columbia. Per capita expenditures for Canada as a whole were running at about 48 cents.

The Auditor General has pointed out with respect to the legislation itself that the Unemployment Assistance Act includes ambiguities which have resulted in varying interpretations, and I would agree with him on that point. We in the department have been aware of this, and we have done the best we could to ensure that the same interpretation of the legislation applies right across the country. We have discussed the difficulties involved with the government. This subject was under discussion at the federal-provincial conference a few weeks ago when it was decided to set up a working party to consider all the assistance programs, including the old age assistance, blind and disability allowances programs and this program, to see if we could not work out a clarified approach to assistance to take into account the various suggestions which the provinces have made with respect to improvements, and generally to give the federal-provincial programs in public assistance a complete overhaul.

I would say, Mr. Chairman, that the department has given this matter very serious consideration over the past two or three years; that we have had a departmental committee, with other departments represented, studying this very point raised by the Auditor General, and that the results of our labours over the last two or three years will be brought forward at this particular time in discussions with the provinces in the hope that a more satisfactory framework for public assistance legislation may be worked out.

The second basic point relates to the administration itself, and here again the Auditor General has mentioned that the ambiguities in the act, resulting in varying interpretations at federal, provincial and municipal levels, has made the department's administration of the assistance program unnecessarily difficult.

I would like to mention some of the facts that make it difficult. One is that we are dealing with a very complex area. As I mentioned, there is a wide range of persons covered; there is a large number of contingencies covered; there are variations in the scale and rate of benefits provided. One of the features of this legislation is that the federal act does not set down in detail the conditions and levels of rates of benefits. So we start off with that kind of situation.

Secondly, the other three assistance programs are administered very largely at the provincial level, and in the case of this program the administration is not being carried out just at the provincial level but at municipal levels also. The records and the actual administration of assistance payments are

being carried out in the hundreds and thousands of municipalities across the country. In the case of homes for special care we are dealing with a large number of voluntary agencies. Records and accounting procedures, and so forth, dealing with a large number of administrative agencies are bound to be more difficult to cope with than in the case of a situation where there is one centralized provincial administration.

The audit services branch of the treasury, which carries out the audit program for our department, deals with the provinces at the provincial level on the basis of the evidence obtained with respect to accounts at the municipal level and in homes for special care.

The Auditor General has an opportunity to take a look at the accounts at the municipal level across the country. His work has been extremely helpful to us in bringing to our attention varying situations in cases where the audit staff of the Comptroller of the Treasury may be required to take a closer look. The department has been dependent upon the audit services staff of the Department of Finance to carry out the audit. We have a very small staff located in Ottawa. Dr. Splane on my right is the director of that division, and Mr. Rouleau is the assistant director. They, together with their staff here, go out to the offices of the provincial administration in an attempt to review with them the criteria for the administration of these payments, and discuss with them the various problems which have arisen as a result of the work of the audit staff, both the audit services staff of the Comptroller of the Treasury and the findings of the Auditor General.

In some provinces the problem has been complex because of the size of the case load. For instance, when the province of Quebec undertook to enter this program there was a terrific backlog built up because the act provides that we make payment not just from the time a payment comes in, but back for a whole year. Therefore, as soon as a large province such as Ontario or Quebec came in we had an automatic backlog of a year's auditing to catch up. As the Auditor General has noted in his report, in the case of the province of Quebec, the federal audit started to help them out by doing some of the auditing for the province. The Auditor General has questioned whether this is appropriate and it has been discontinued. I just mention this in terms of the complexity of the situation, particularly in the case of a large province containing a large number of municipalities and with a large number of voluntary agencies which operate homes.

We have assessed this situation as a result of the comment by the Auditor General to see how we might improve the situation. We have taken action to strengthen the departmental staff so that we might put officers in the field who will become involved at the audit level and who not only will strengthen our liaison with the provincial authorities, but will actually create audit services and work with the audit services branch people. This is an endeavour to overcome many of these difficulties. We are going to try this out. If this does not prove to be satisfactory, we will have to increase the staff even further.

What we are trying to do in establishing this field staff is to co-ordinate our work under the three categorical assistance programs where we do have some field workers and have the staff representatives carry on the work in the different fields. As you may know, the three categorical programs being administered on a means test basis and from the provincial level, have a different kind of administrative structure from this program. We have had a director on that program at the federal level, and a director of this program at the provincial level, and only in a few provinces have these two programs been brought together under one administration. I think the tendency in the provinces will be to try to bring the various assistance measures closer

together in a broad or better co-ordinated public assistance program. To date we have had a situation where the director of the three categorical assistance programs has often been working with one administrative unit in the provincial departments of welfare and our director of unemployment assistance has been working with another unit.

We think that the co-ordination of our field staff, and the developments within the province towards co-ordination of their assistance and administrative machinery, it will be steps in the right direction. So, Mr. Chairman, these are my comments with regard to the legislation and the administration.

Reference was made to work for relief. The fact that we did recover some funds from the province of Ontario was also mentioned. The Unemployment Assistance Act as it is now set out does not provide for us to share in work for relief payments. In the case of Ontario it was brought to my attention first through the press, and then shortly thereafter by the Auditor General, that some municipalities had undertaken work for relief. We were interested in knowing whether we had reimbursed the province in respect to assistance granted on that basis.

I got in touch with the deputy minister of welfare in Ontario and discussed this question with him. He sent a directive to all municipalities pointing out the requirements of the legislation. To our knowledge the practice in so far as it was being carried on was discontinued in so far as sharing under the Unemployment Assistance Act is concerned. We have always taken the position that if a province and a municipality want to carry out work for relief, that this is their business. By taking this action concerning reimbursement we did not wish in any way to take sides on whether the work for relief was good or bad.

There may have been a few other municipalities which put forward some claims in this area. However, in our judgment it was not financially worth while to go back and root through the records of all municipalities, because the cost would have been greater than what we would have gained. So we let the matter stand there.

The question of work for relief was raised at the federal-provincial conference a few weeks ago when it was indicated that this matter will receive further study by the federal-provincial authorities. Naturally it will come up as part of the discussion of the broader question of where we are going in the field of public assistance generally.

Several references were made to the difficulties which stem from the homes for special care. Two or three references were made to overpayments in the province of Quebec. Quebec came into the program in 1959 and we had great difficulty in sorting out the institutions which would qualify, because some of them are partly nursing homes, and some are partly hospitals. But the situation was greatly assisted when the province of Quebec introduced hospital insurance. After they got this program under way and had it going for a time the hospital insurance officials in our department, and our unemployment assistance officials, met with the Quebec officials and we went through, institution by institution, and sorted this problem out. This did mean, however, that where a particular institution in part or in whole was shifted to the hospital insurance program, if we had shared in the cases in the institution previously, it was obvious that that was not a home for special care. As a result of this situation some overpayments did arise. I mentioned earlier that the problem of backlog of work in the case of Quebec was a problem which also resulted in some overpayments.

Another difficulty which arose because of the pressure of work was that the provincial government made claims which were in part based on estimates, and then submitted these claims to us. Where this occurred we had to hold up some of the claims and go back and check on the estimated part. In some cases we got overpayments in this way.



We also had some problems in respect of homes for special care. This applied not only in the province of Quebec but elsewhere, because the method of keeping books and records in relation to this particular program was a new thing and they had to set up procedures in order to give us actual assessments of cost on which to base the claims.

Reference is made in the report to the fact that in Prince Edward Island the monthly rate for care in the provincial home for the aged originally was set out by order in council at \$90 and we were being charged at the rate of \$118, representing the actual cost of care. The government of Prince Edward Island failed to bring this order in council up to date and in line with costs. The order in council related to people who could pay for the service. We were paying for indigents. This meant that over a period of time a person could go and pay for the services at the rate of \$90, whereas the actual cost was \$118. We found there were few people in these institutions who were actually paying for the service. In fact, almost all were indigents, and we felt that the \$118, which was the actual cost of assistance, was the figure that we should take.

The province of Prince Edward Island, I understand, changed its order in council and brought the figure into line with actual costs.

In the case of British Columbia, we had some problems in overpayments arising from supplementary payments. British Columbia had been paying on a means test basis for supplementation and, in order to receive assistance under this program, transferred this case load on to a different basis, a needs test basis. Because of an effort to do this in a short period of time certain mechanical errors in the calculation of need arose, and in a couple of months they changed their interpretation of the schedule of need; and then the question of retro-activity came in. As a result, we had a considerable amount of work in trying to figure out what was the appropriate amount on which to share.

Another area that caused some problem is mentioned briefly here and is related to children of assistance recipients placed in foster homes. This occurred in both British Columbia and Nova Scotia where overpayments arose. These were cases in which the children were in need; they were either children of unemployed parents or their parents were deceased and they had to be placed with foster parents. The provinces felt that assistance should be provided. We argued that we could only pay assistance on behalf of the child in cases in which the parent or the foster parent was unemployed and in need. The province—mainly Nova Scotia—put forward the case that in instances where the child was with foster parents who were relatives and had very little income, these would normally be mothers' allowances cases. We had to agree with that; in normal circumstances these would be mothers' allowance cases. In the case of provinces in which mothers' allowance cases had been shifted into the general assistance load, they would be counted as part of the case load which is excluded in calculating the amount reimbursed by the federal government. The provinces argued that such cases should be included in the claim and we felt this was justifiable.

Mr. Chairman, I have tried to give some background to the points raised by the Auditor General and to the program. I must say how much I appreciate this opportunity to meet the committee and to explain some of our problems in trying to administer this program. The kinds of questions raised relate to shares of cost between the federal and provincial governments; not in any case do they really relate to the question of whether a person receiving assistance received too much or too little. In other words, it is a matter of how the cost should be shared.

In the interests of keeping harmonious federal-provincial relationships in shared programs, it is helpful to the administration to have legislation which is as clear and unambiguous as possible. We have very cordial relations with

our counterparts in the provinces, and even though the amounts have been considerable in some instances in which there have been overpayments, this has not seriously impeded those relationships. Both sides, however, would prefer to have the basis for the irritants removed. I am sure it would be helpful to both sides if such were the case. While the amounts are fairly substantial, when it is looked at in the light of \$108 million, it is possible to make adjustments as further payments are made, so the province is not affected too seriously. If we do find an overpayment, it can be adjusted gradually over a few months.

The CHAIRMAN: Thank you very much, Dr. Willard.

It is twenty minutes to one. Do you wish to take a few minutes now to ask questions? Or would you prefer to come back later today? I should point out that next Friday will be our last open meeting. Mr. Bryce will be back at that time.

I think it probably will take most of Friday to finish the questions we will be dealing with in respect of the Department of Finance. If we prorogue before Christmas we would like during the ensuing week to complete the details of the report we wish to submit and to submit it.

Are there any questions which members of the committee would care to put at this time to Dr. Willard and his associate.

Mr. SOUTHAM: I imagine the Glassco commission has referred in its report to some of the problems within your department of health. Is this the case? I am not too familiar with this.

Mr. WILLARD: There was no reference to unemployment assistance in the Glassco report.

Mr. FORBES: Do the municipalities in all the provinces share in the cost of this program?

Mr. WILLARD: It varies. Some provinces and municipalities do get involved in the cost: for instance, in the case of Ontario the municipality puts in 20 per cent, the province 30 per cent and we put in 50 per cent. But, that is on the shareable costs. Provinces and municipalities may get involved in the medical care costs and some elements which we exclude.

Mr. FORBES: In the case of Manitoba where we have hospitalization insurance and the municipality pays part of the premium, do you share in the cost of this premium?

Mr. WILLARD: No. Hospital care is excluded as are medical care, nursing services and so on.

Mr. FORBES: In cases where the municipality provides work do you share in the cost of the labour?

Mr. WILLARD: No. This is what I sometimes refer to as work for relief. If we have shared in the cost of the assistance payments and then the individual is put to work to repay, as it were, the money that he received in assistance, then that amount cannot be charged to us under this legislation. The legislation would have to be changed to permit that.

Mr. MUIR (*Lisgar*): Dr. Willard, I was wondering if this committee that was set up as a result of the dominion-provincial conference is going to bring in suggested changes in the act to co-ordinate the basic requirements for federal assistance in order that they may be the same across Canada?

Mr. WILLARD: It is hard to say in advance, sir, just what direction it will take. But, the basic purpose is to have a working party at the technical level made up of federal and provincial officials to work together and bring together the basic elements and then, presumably, there would be a meeting of ministers, out of which would grow possible changes in the federal-provincial

programs. Some of the provinces have felt that they would like to move from the categorical programs, the old age assistance, the blind and the disabled, which have very considerable federal regulations and requirements, to a general assistance approach from the federal government whereby they could set the rates of benefits and the conditions. They would like to see this legislation improved but this pattern of legislation perhaps applied in the case of the other programs. So that this would be very much a topic of consideration. Some provinces feel that mothers' allowances should be part of federal sharing, and they feel that the arbitrary way in which this legislation tries to separate it is not equitable and that this is one thing that certainly will be under discussion.

Mr. MUIR (*Lisgar*): Now I would like to put a question to Mr. Henderson. Does he think the committee could usefully recommend anything before we can study the report of this committee? Could we do anything that would assist the committee in their findings?

Mr. HENDERSON: The purpose of my vote is largely one of reporting to the house the situation as we find it, and the statement that I have made about the manner in which the ambiguities have resulted in varying interpretations has been present in my reports for some years, and in the reports of my predecessor. I would hope, in the light of what Dr. Willard has had to say, that there will be an opportunity for a re-drafting of this act. I agree with you, Mr. Muir, that it would be useful to ascertain whether you might want to defer that until the committee which Dr. Willard has described has been able to give it prior consideration. Might we perhaps address this question to Dr. Willard?

Mr. MUIR (*Lisgar*): It would be very useful to hear what he has to say.

The CHAIRMAN: Do you think the committee could make recommendations which would be of value prior to this other inter-provincial-federal committee report?

Mr. WILLARD: I think it would be useful for the committee to reflect on the Auditor-General's comments from this point of view. The provinces are interested in some of the problems related to their situation, such as whether we are, under the categorical programs, too stringent in some of our requirements, and whether certain other areas, such as the mothers' allowances, can be brought in, and so forth. I think that the Auditor-General has pointed up certain specific problems relating to homes for care, relating to these over-payments, and so forth. We will certainly take them into account because it has been brought to our attention here and I think parliament itself should have the benefit of your comments. I do not think that this would be out of the way.

Mr. SOUTHAM: Mr. Chairman, I have a supplementary question to this. As Mr. Henderson has pointed out, there are varying interpretations of the act—I am referring to the federal act. You referred to the possibility of the committee making recommendations so as to bring about greater uniformity. In your administration of this whole program is there much variation at the provincial and municipal levels as far as action is concerned? I can appreciate that if there is much variation it would create an over-all problem. Would we be within our rights to suggest to the provincial-federal conference a more uniform program as far as the various provinces are concerned? It would simplify the whole process.

Mr. WILLARD: Mr. Chairman, I think the very nature of general assistance is that you are going to get this variation. I also think that the kind of flexibility that most of the provinces seem to want will encourage more flexibility rather than uniformity. I think that over the years there has been a tendency, perhaps at the federal level, to look at one standard for all of



Canada, and that was certainly the basis of the categorical programs where you set a means test by which you could get all provinces to follow the same pattern. I think it has been very useful over the years in the field where it has been applied, but I think that when you get into general assistance—we called it relief in the 30's—there is considerable variation across the country regarding the standard and level of benefit, and so forth. So that the rates of benefit tend to approximate more the relationship of the level of wages to the standard of living in a certain area, and also we get wide variations from a large metropolitan city to a rural situation and from a largely industrialized province to a less industrialized province.

Certainly I think the tendency here is to greater flexibility and greater variation. Our problem will be to try to work with the provinces to ensure that recipients are looked after properly and yet, at the same time, see that the municipalities and the provinces have the flexibility which they feel is necessary. They feel they know their own situation and know when assistance levels are getting out of line with what the public in a given area feels is appropriate, and so on.

The CHAIRMAN: We will hear from Mr. Cameron, and then I think we should adjourn.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You have some mention of homes for special care?

Mr. WILLARD: Yes.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Might we have a fairly precise definition of that? There really is a problem of definition in respect of what constitutes a nursing home, a home for the chronically ill, a home for the aged, and so on. I believe there is a great deal of confusion in respect of the terminology.

Mr. WILLARD: The act says a home for special care is a nursing home, a hostel for indigent transients, a home for the aged or hostel facilities for the aged within housing projects under the National Housing Act. It excludes a hospital for the chronically ill; it excludes a convalescent hospital, and so on. Our problem was to try to define these things. For instance, we found in some instances you might have a mixed situation.

We had one situation where there were some children in an institution, and where we had some old people in the same institution. Were we to go in and pick out the individuals or classify the institution as a whole? We felt we had to go on an institutional basis. Quite often there is the case where there would be an institution, one part of which was a chronic hospital and which could be defined as a chronic hospital for purposes of the hospital insurance program, and the hospital insurance would take that part; if the other part was an old persons' home, or a nursing home, then we would share the cost of the needy people in that home.

Mr. McMILLAN: Do you share costs in these homes in respect of people who are receiving the old age pension and old age assistance?

Mr. WILLARD: Only if there is need for supplementation. In other words, if the \$75 a month under the old age security fully meets the costs and the needs of the individual, there would be no need; if, on the other hand, there was a situation where the costs were \$85 a month, it would be possible for the province to pay, and if the amount were \$10 we would share half of it. So, we do share under this program supplementation on behalf of recipients of old age security, old age assistance, blind persons and disabled persons' allowances.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): You mentioned that any institution which is classified and defined as a chronic hospital becomes eligible for federal contribution under the hospital insurance scheme.

Mr. WILLARD: Yes. If it is a chronic hospital, or agreed upon between the provincial and federal authorities in relation to hospital insurance, then we withdraw from that field completely.

Mr. CAMERON (*Nanaimo-Cowichan-The Islands*): Any federal contribution will come under the general hospital plan.

Mr. WILLARD: Yes.

The CHAIRMAN: Thank you, Dr. Willard. You have been most helpful. We appreciate your coming here today.

## APPENDIX

Statement made by Mr. J. S. Larose, Superintendent of Bankruptcy, in connection with the discussion of Paragraph 69 concerning the Administration of the Bankruptcy Act (Minutes of Proceedings and Evidence No. 6, pp. 193-5)

Pursuant to section 3(5) of the Bankruptcy Act, "The Superintendent may engage such accountants or other persons as he may deem advisable to conduct any inspection or investigation or to take any other necessary action outside of the office of the Superintendent, and the cost and expenses thereof shall, when certified by the Superintendent, be payable out of the appropriation for the office of the Superintendent". By virtue of this authority, an inspection program was introduced by the Superintendent of Bankruptcy in 1961 on an extended basis. Not since the office of the Superintendent was created in 1932 had an inspection on such a large scale been undertaken, having previously been limited to investigation with regard to specific complaints relating to the administration of particular estates.

In the years immediately preceding 1961 an investigation into the administration of bankrupt estates had been undertaken by the R.C.M. Police at the request of the Superintendent because of allegations of misconduct on the part of trustees charged with the administration of the estates originating under the Act. While this investigation in the first instance was begun in the Province of Quebec where the complaints had originated, and was later extended on a more reduced scale to Ontario, this procedure was abandoned and the services of accountants retained on the understanding that, where indicated, the services of the R.C.M. Police would be required to investigate such matters as might arise out of the findings of the accountants.

Because of the fact that, as already mentioned, no such inspection had previously been attempted, the task has of necessity been more extensive and time-consuming than would otherwise have been the case; but it is anticipated that the initial phase will have been completed no later than March 31, 1964. It is intended thereafter to continue this inspection on an annual basis.

To date the operations of all active trustees in the Provinces of Ontario, Manitoba, Saskatchewan, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland have been completely investigated, as have those of the majority of trustees in Quebec, thus leaving the remainder of the trustees in that Province as well as those in the Western Provinces of Alberta and British Columbia.

As a result of the investigation that has been conducted to date the licences of some trustees have been cancelled for cause, other trustees have seen their licences renewed only for the purpose of enabling them to complete the administration of the cases on hand and some trustees have been given reprimands. This is apart from those instances where prosecutions were taken resulting in the conviction of three trustees and the imposition of jail sentences for varying periods.

Among those trustees whose licences were cancelled or not renewed there were two, both located in Montreal, and seized of large numbers of estates, the administration of which had not been concluded and for which a substitute trustee had to be appointed to complete the administration. Under the Bankruptcy Act such substitute trustee may be appointed by the Minister of Justice or by the Official Receiver in the Bankruptcy Division concerned.

Trustees under the Bankruptcy Act are remunerated by the fees prescribed by the Act or authorized by the court for payment out of the estate. However, due to maladministration or otherwise on the part of the two trustees con-



cerned, there were not sufficient funds presently available in the estates taken over out of which the new trustee could draw for his fees and disbursements and, consequently, it was not possible to interest a new trustee on the usual basis. It became necessary, therefore, to find a trustee who, in consideration of being paid or guaranteed a minimum remuneration for his services, would agree to take over and administer the large number of estates left by the trustees whose licences had been cancelled or not renewed.

Thus it was that a substitute trustee was appointed and assumed responsibility for the administration of approximately 445 estates in the hands of one of these trustees and approximately 340 in the hands of the other, on the understanding that any fees obtained by him from such estates as substitute trustee would be applied toward repayment of the sum of \$40,208.36 which had been paid to him from early 1961 to August 31, 1962. The amount so repaid to date is \$5,149.96, and further repayments are anticipated as, while the substitute trustee has completed approximately one-half of the estates taken over from one of the trustees who had preceded him, most of these closed cases were small bankruptcies from which little or no remuneration was derived. Proceedings were delayed because the Superintendent of Bankruptcy found it necessary to contest the taxation of the accounts of the original trustee. Similarly, in the case of the other trustee who had been removed from office and whose estates were taken over by the substitute trustee, the accounts of the original trustee were contested by the Superintendent and, because of the related proceedings and the prosecution of the original trustee, it has not yet been possible for the substitute trustee to finalize the administration of the estates taken over by him. In the latter instance appeals from the taxation of the original trustee's accounts are still pending before the court.

In the case of one of the trustees whom it was found necessary to replace the court declined to allow costs to the Superintendent of Bankruptcy covering the expenses of the investigation and related proceedings. However, in both instances, claims are to be made against the security filed with the Superintendent of Bankruptcy in accordance with section 5(1) of the Act although it is not known to what extent such claims will finally be successful. In this connection it might be noted that the taxation of the fees and disbursements of one of the trustees who was replaced has been appealed.



HOUSE OF COMMONS  
First Session—Twenty-sixth Parliament  
1963

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STANDING COMMITTEE  
ON  
**PUBLIC ACCOUNTS**  
*Chairman: G. W. BALDWIN*

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MINUTES OF PROCEEDINGS AND EVIDENCE  
No. 9

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Public Accounts, Volumes I, II and III (1962)  
Report of the Auditor General to the House of Commons—1962  
Including Third and Fourth Reports to the House

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FRIDAY, DECEMBER 13, 1963  
MONDAY, DECEMBER 16, 1963

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WITNESSES:

Mr. R. B. Bryce, Deputy Minister of Finance, and Mr. A. M. Henderson,  
Auditor General of Canada.

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1964



## STANDING COMMITTEE ON PUBLIC ACCOUNTS

*Chairman:* Mr. G. W. Baldwin

*Vice-Chairman:* Mr. W. H. McMillan

and Messrs.

Basford,	Lessard ( <i>Saint-Henri</i> ),	Rock,
Berger,	Loiselle,	Rondeau,
Cameron ( <i>High Park</i> ),	McLean,	Ryan,
Cameron ( <i>Nanaimo-</i>	McNulty,	Scott,
<i>Cowichan-The Islands</i> )	Muir ( <i>Lisgar</i> ),	Slogan,
Crouse,	Noble,	Smith,
Drouin,	Nowlan,	Southam,
Dubé,	O'Keefe,	Stefanson,
Eudes,	Olson,	Starr,
Fane,	Pigeon,	Tardif,
Fisher,	Pilon,	Tucker,
Forbes,	Plourde,	Valade,
Frenette,	Regan,	Wahn,
Gendron,	Ricard,	Whelan,
Gray,	Richard,	Woolliams—50.
Hales,	Rinfret,	
Harkness,	Rocheon,	

M. Slack,  
*Clerk of the Committee.*

## REPORTS TO THE HOUSE

THURSDAY, December 19, 1963.

The Standing Committee on Public Accounts has the honour to present the following as its

### THIRD REPORT

During its consideration of the Public Accounts Volumes I, II and III and the Report of the Auditor General of Canada for the fiscal year ended March 31, 1962, your Committee studied the form of the Estimates and has unanimously agreed to report as follows:

1. Your Committee considered the several purposes which the annual Estimates are designed to serve including their most important purpose of enabling Parliament to meet its constitutional responsibilities in connection with the appropriation of the funds required for the conduct of federal government services. For this purpose, annual Estimates should be prepared in a form which will clearly identify for every Member and for the public the spending programs being proposed by the Government and the essential elements of cost involved in them. Your Committee believes that this objective can be more effectively achieved by rearrangement of the detail presently provided therein and by the inclusion of certain additional information as set out herein.

2. Recognition was given by the Committee to the announcement made in the House by the President of the Privy Council on November 5, 1963 that the government proposes in due course to cause departmental Estimates to be prepared (increasingly wherever practicable) as recommended by the Royal Commission on Government Organization, on the basis of programs of activity rather than by standard objects of expenditure, and that this will be reflected to some extent in the form in which departmental Estimates are presented annually for the approval of Parliament. The Committee noted that the Treasury Board, in working toward this objective, now has under way an examination of the functions, operations and organizations of four selected departments, designed to achieve the objective of program budgeting in the preparation and submission of departmental Estimates.

On the basis of the evidence presented to the Committee, it believes that presentation of the Estimates along these lines will provide Members and the public with important information on the spending programs proposed by the government and the essential elements of cost involved in those programs. It should be noted, however, that the introduction of program budgeting along these lines cannot take place until the detailed pilot studies in the four departments, currently being undertaken by the Treasury Board Staff, are completed.

3. In the meantime, your Committee believes that the following changes in the form of the annual Estimates would contribute to a better understanding of the Estimates:

- (a) Adoption of the revised vote pattern proposed by the Treasury Board for introduction into the Main Estimates 1964-65 subject to certain improvements suggested by the Auditor General to the Committee.

- (b) Inclusion of supporting financial information of Crown corporations and other public instrumentalities in the Details of Services for the purpose of providing better information to the Members and to the public with respect to the nature of the fiscal requirements of the Crown corporations and other agencies requiring financing by parliamentary appropriations.
- (c) Presentation of additional information in the Estimates concerning the staff of all government departments and the Crown corporations and other public instrumentalities referred to under clause (b) above:
  - (i) the number of employees actually on the payrolls at the latest date available during the course of the Estimates preparation; and
  - (ii) brief notes explaining proposed major increases in the size of establishments.

Your Committee recommends the adoption of as many of the foregoing improvements as is practicable in the Main Estimates for 1964-65.

4. Your Committee considered and approved the following additional improvements in the form of the Estimates but, for the reasons stated hereunder, believes that their implementation should be delayed until the government is in a position to introduce the program budgeting referred to in paragraph 2:

- (1) Introduction of interdepartmental billing for services rendered.

This contemplates provision for all significant cost factors in the individual departmental appropriations and thus the inclusion of the actual costs in the accounts of the responsible departments. At the present time these cost factors are shown in memorandum form in the Estimates of each department and described as the "approximate value of major services not included in these Estimates". It is understood that these figures will continue to be shown in memorandum form in the Estimates until it is possible to inaugurate interdepartmental billing for the services. This recommendation should not be implemented until the numbers of extra personnel required have been determined and a decision should be made at that time as to whether the benefits envisaged justify the increased costs.

- (2) Preparation of the Estimates both on a "net" and "gross" basis.

The President of the Privy Council announced on November 5th that all departments and agencies will be required to that revenues will be offset against related expenditures in individual votes with the votes being shown in the Estimates and controlled on a net basis. Your Committee understands that implementation of this proposal will be effected with the introduction of the program budgeting referred to in paragraph 2.

- (3) Inclusion of appropriate explanations in the Estimates in all cases where expenditures proposed for the year involve substantial commitments for future years.

The President of the Privy Council announced on November 5th that all departments and agencies will be required to prepare and submit to the Executive long-term plans of expenditures by programs, and that on this basis an overall forecast of government expenditures and prospective resources for a period of five years ahead would be prepared annually. Your Committee noted that preparation and submission of this material is to form an integral part of the implementation of program budgeting referred to in paragraph 2.



5. A Subcommittee of the Standing Committee on Public Accounts was appointed on Friday, November 15th, 1963, to study the form and content of the Estimates. The said Subcommittee consisted of the following under the Chairmanship of Mr. Ian Wahn: Messrs. Berger, Tucker, Harkness, Stefanson, Olson, and Cameron (*Nanaimo-Cowichan-The Islands*). In the course of its study the Subcommittee consulted with Mr. A. M. Henderson, the Auditor General, Mr. G. R. Long, Audit Director of the Office of the Auditor General, and with Mr. G. G. E. Steele, Secretary of the Treasury Board, and Mr. J. C. Allen, Director, Estimates and Administrative Procedures, Treasury Board.

A copy of the relevant Minutes of Proceedings and Evidence, Issues Nos. 1 and 9 is appended.

Respectfully submitted,

G. W. BALDWIN,  
*Chairman.*

The Standing Committee on Public Accounts has the honour to present the following as its

#### FOURTH REPORT

1. On June 27, 1963 your Committee was constituted by an Order of the House of Commons and on October 29, 1963 the House passed the following resolution:

Ordered—That the Public Accounts, Volumes I, II, and III, and the Report of the Auditor General for the fiscal year ended March 31, 1962, laid before the House on January 21, 1963, be referred to the Standing Committee on Public Accounts.

2. Your Committee held its organization meeting on October 17, 1963 and unanimously elected as Chairman, Mr. G. W. Baldwin, a member of Her Majesty's Loyal Opposition. Mr. W. H. McMillan was elected Vice-Chairman. At the next meeting on November 8, 1963 the Chairman announced the composition of the Sub-Committee on Agenda and Procedure as follows: Mr. G. W. Baldwin, Mr. R. Gendron, Mr. A. D. Hales, Mr. W. H. McMillan, Mr. H. A. Olson, Mr. G. A. Regan and Mr. H. E. Winch.

3. Your Committee held 13 meetings in the course of which there were in attendance:

from the Auditor General's Office:

Mr. A. M. Henderson, Auditor General  
Mr. Ian Stevenson, Assistant Auditor General  
Mr. G. R. Long, Audit Supervisor  
Mr. B. A. Millar, Audit Supervisor  
Mr. A. B. Stokes, Audit Supervisor  
Mr. D. A. Smith, Audit Supervisor  
Mr. J. R. Douglas, Audit Supervisor  
Mr. J. M. Laroche  
Mr. C. F. Gilhooly  
Mr. H. B. Rider  
Mr. E. Cooke  
Mr. A. G. Cross

from the Canada Council:

Colonel D. B. Weldon, Chairman  
Mr. Marcel Faribault  
Mr. Trevor Moore

from the Treasury Board Staff:

Mr. G. G. E. Steele, Secretary of the Treasury Board.  
Mr. J. C. Allen

from the Civil Service Commission:

Mr. R. G. MacNeill, Chairman  
Mr. C. R. Patterson  
Mr. J. R. Neville  
Mr. G. O. Currie

from the Post Office Department:

Mr. W. H. Wilson, Deputy Postmaster General  
Mr. C. Daze, Assistant Deputy Postmaster General  
Mr. M. Lysack  
Mr. F. Pageau

from the Department of National Health and Welfare:

Dr. J. W. Willard, Deputy Minister of Welfare  
Dr. R. B. Splane, Director, Unemployment Assistance Division

and

Mr. R. B. Bryce, Deputy Minister of Finance  
Mr. H. O. Moran, Director General, External Aid  
Mr. D. H. W. Henry, Director of Investigational and Research, Combines Investigation Act.

4. In the course of its meetings your Committee gave consideration to:

- (a) the action that had been taken by departments and other agencies as a result of recommendations made by the Committee in its Fifth Report 1961 and in its Second Report 1963;
- (b) the Report of the Auditor General for the fiscal year ended March 31, 1962 in respect of paragraphs 1 to 74, inclusive, and paragraphs 84, 114 and 140.

ACTION TAKEN BY DEPARTMENTS AND OTHER AGENCIES  
AS A RESULT OF RECOMMENDATIONS MADE BY THE COMMITTEE  
IN ITS FIFTH REPORT 1961 AND IN ITS SECOND REPORT 1963

5. A memorandum dated October 30, 1963 was filed with the Committee by the Auditor General (Minutes of Proceedings and Evidence No. 1, pages 32 to 56) reporting upon the action that had been taken by departments and other agencies in this regard, and various administrative officers were examined by the Committee.

6. The Committee was pleased to note that action had been taken by departments and other agencies concerned in respect of 25 of the 35 cases where recommendations had been made by the Committee in its Fifth Report to the House, 1961.

*Office of the Auditor General*

7. The Committee noted in its Second Report 1963 made to the House on February 5, 1963 that it had on two previous occasions in its reports recommended that immediate attention be given to the problem of recruitment of staff by the Auditor General, and stated that it saw no reason to alter its recommendations made in two previous years (see Third Report 1960 and Fifth Report 1961).

8. The Committee gave consideration to section 65 of the Financial Administration Act and section 74 of the Civil Service Act and the opinion expressed by previous Committees that consideration should be given to amending section 65 of the Financial Administration Act so as to authorize that the Auditor General recruit and manage his own staff with the approval of the Treasury Board, and that in the meantime the Civil Service Commission should immediately reconsider its position with respect to section 74 of the Civil Service Act since the Committees were convinced that the special character of the Auditor General's work requires that this be done.

9. As the Committee was advised that no action had been taken by the Executive to implement this recommendation in whole or in part since it was last made on February 5, 1963, the Auditor General and the Chairman of the Civil Service Commission were asked to explore the problem further and to report back to the Committee on November 22, 1963. On that date they jointly advised the Committee as follows:

- (1) The Auditor General and the Civil Service Commission have reached agreement on the steps to be taken to achieve the objectives of the Auditor General in the area of recruitment, selection and negotiation with candidates for positions in his Office. While giving the Auditor General freedom to recruit staff, these steps contemplate adherence to the basic personnel policies and standards sought for the Canadian public service by the Civil Service Commission, and the Auditor General has accepted the responsibility to see that this is maintained through the medium of effective liaison.
- (2) In order to facilitate the achievement of these objectives, the Civil Service Commission is seconding a senior employee from its staff to the staff of the Auditor General to handle his staff and administrative matters.

10. The Committee expressed its satisfaction at this arrangement whereby the Auditor General will in future be permitted to recruit and manage the staff of his Office, with the approval of the Treasury Board, and asked him to advise the Committee whether or not this arrangement is functioning to his satisfaction and enabling him to recruit such officers and employees as are necessary for him to perform his duties.

#### *The Form of the Public Accounts*

11. The Committee expressed satisfaction that the Public Accounts volumes for the fiscal year ended March 31, 1961 had been arranged in the manner recommended by the Committee in its Fifth Report 1961 and that these improvements had been continued in the Public Accounts for the year ended March 31, 1962.

12. The Committee noted that further consideration might be given to summarizing or reducing a number of the detailed listings in the Public Accounts so as to present more significant and relevant information to Parliament. It also felt that consideration might usefully be given to the inclusion of additional important information along lines suggested by the Auditor General.

13. As time has not permitted consideration of the foregoing by any sub-committee convened for the purpose, the Committee recommends that this be undertaken during the next session of Parliament.

#### *The Form and Content of the Estimates*

14. A Sub-Committee was appointed on November 15, 1963 under the chairmanship of Mr. Ian G. Wahn to confer with officers of the Treasury Board and the Auditor General to review the form and content of the Estimates, includ-



ing a report addressed to the Chairman on September 30, 1963 by the Secretary of the Treasury Board outlining changes proposed by the Treasury Board in the number and nature of votes in the annual Estimates. The Sub-Committee submitted its report on December 16, 1963 and on this basis the Committee made its Third Report to the House.

### *Second Class Mail*

15. The Committee was informed by the Auditor General and the Deputy Postmaster General that the revisions of second class postage rates which had been made or were in prospect are confined to two areas and that the increased revenue to be derived from these sources is not expected to exceed \$1,000,000 per annum. The Committee noted that such a sum will not be sufficient to cover the further increase in the cost of handling second class mail because the annual deficit is currently exceeding \$26,000,000. The Committee further noted that this deficit cannot be reduced without a general upward revision of rates of postage on Canadian publications, or by means of an annual grant from Parliament in an amount sufficient to cover the loss of the Post Office in handling second class mail.

16. The Committee noted that the second alternative had been the subject of a recommendation to the government by the Royal Commission on Government Organization. The Committee believes that early consideration should be given by Parliament to these alternatives and requests that the Auditor General keep the matter before Parliament in his annual Reports in order that subsequent Committees may give consideration to it.

### *Interest on Temporary Investment of University Grants Fund*

17. The Committee noted that in the discussion of Vote 710, providing for the deletion from the accounts of certain debts due to the Crown, in Committee of Supply in the House of Commons on March 30, 1962, no reference was made to the account standing in the name of the Canadian Universities Foundation and that the listing containing this was not tabled in the House until after Vote 710 had been considered in Committee of Supply.

18. The Committee wishes to draw to the attention of the Executive that failure to disclose information of this type in the Estimates detail laid before Parliament has the effect of denying pertinent information to the Members. The hope is expressed that such an instance will not be repeated.

### *Prairie Farm Emergency Fund Deficit*

19. In its Fifth Report 1961 the Committee, having regard for the fact that the Agricultural Stabilization Act provides for the inclusion of an item in the Estimates to cover the net operating loss of the Agricultural Stabilization Board in any year, recommended "that consideration be given to amending the Prairie Farm Assistance Act to provide similarly for the inclusion of an item in the Estimates to cover any deficit that might be anticipated in the operation of the Prairie Farm Emergency Fund".

20. The Committee is pleased to note the statement of the Deputy Minister of Agriculture that provision for the implementation of this recommendation will be included with other proposals when amendments to the Act are presented for ministerial consideration.

21. In reiterating its recommendation, the Committee expresses the hope that the amendment along these lines will be placed before Parliament at an early date. In the meantime, the Committee requests that the Minister of Finance seek parliamentary approval by means of an Estimate item to cover any

advances to the Prairie Farm Emergency Fund (that is, the deficit resulting from the Fund's operations) that are to be written off to expenditure for the year.

#### *Reimbursement to Servicemen for Lease Termination Payments*

22. The Committee noted the recommendation contained in its Fifth Report 1961 that the maximum period with respect to which reimbursement is made to members of the Forces for lease termination payments should be reduced to the equivalent of one month's rent in future.

23. It further noted that an amendment had been made by the Department of National Defence to its regulations during the past year which provided for discretionary powers to be exercised by administrative officers in dealing with individual cases.

24. The Committee was informed that the Department, in order to avoid abuses, was in the process of issuing a guide for unit commanding officers, in the counselling of Service personnel with regard to the leasing of accommodation.

25. The Committee is of the opinion that a further and more detailed inquiry should be made at the Public Accounts Committee next session.

#### *Advances to the Exchange Fund Account*

26. The Committee was informed by the Deputy Minister of Finance that the report by the Minister of Finance which had been requested by the Committee in its Fifth Report 1961 had been drafted and approved by the then Minister. However, because of subsequent developments with respect to the valuation of the Canadian dollar, the information contained therein is now out of date. Furthermore, the Deputy Minister felt that he would like to see additional information included in such a report.

27. The Committee agreed, at the suggestion of the Deputy Minister, that consideration of this item be deferred until the next meeting of the Committee at which time an up to date report would be available from the Minister of Finance.

#### *Unemployment Insurance Fund*

28. The Committee noted that in its Fifth Report 1961 the recommendation had been made that the preparation of annual financial statements for the Unemployment Insurance Fund should be made a statutory responsibility of the Unemployment Insurance Commission and that the statements should be reported upon by the Auditor General.

29. The Committee reiterates this recommendation and expresses the hope that when the Report of the Committee of inquiry into the Unemployment Insurance Act (tabled in the House on December 29, 1962) is considered by Parliament, action will be taken to implement this particular recommendation. The Committee noted that the recommendation is also among the conclusions and recommendations of the Committee of Inquiry, as set forth in paragraph 172 of its Report.

#### *Departmental Operating Activities*

30. The Committee reiterates its belief that it would be desirable, in order that Members may have a clear understanding of the true financial results of departmental trading or servicing activities, were financial statements reflecting these activities to be included in the Public Accounts, providing this can be done without undue cost or staff increases.

31. The Committee requests the Auditor General to continue to keep the development of this objective under close surveillance and to report thereon to the Committee in due course.

#### *Board of Grain Commissioners*

32. In its Fifth Report 1961 the Committee had stated that it felt concerned that in each year since 1953-54 the expenditures of this activity had exceeded its revenues by more than \$1,000,000 and the Committee recommended "that steps be taken to bring revenues and expenditures into balance".

33. The Committee, noting that the Deputy Minister of Agriculture had stated that he is exploring with the Board the extent to which steps can be taken to reduce the present disparity, requested the Auditor General to keep this matter under review and to report thereon to the Committee in due course.

#### *Subsidies*

34. The Committee noted the recommendation contained in its Fifth Report 1961 that a study be made of the various classes of subsidies or payments in the nature of subsidies that are provided directly or indirectly out of public funds and requested that the Minister of Finance prepare such a statement in due course.

35. Consideration was given to a listing prepared annually by the Treasury Board officers for the information of the Board showing the provision in the Estimates for grants, subsidies and special payments for the period 1959-60 to 1962-63, inclusive. The Committee requested that the figures on this listing be brought up to date by the officers for consideration by the Committee at a subsequent meeting.

#### *The Canada Council*

36. In its Fifth Report 1961 the Committee noted that it had been informed that profits realized and interest earned on the University Capital Grants Fund had not been allocated to the provinces or to the universities and recommended that the Council seek to conclude this matter without further delay.

37. The Committee was informed by the Chairman and members of the Council that the Council, following advice from legal counsel, proposed to accept the 1956 census as a basis for distribution of the accumulated profits and interest earned, and also to accept the 'hotch-pot' or trust fund approach for this distribution. Having been informed of the doubts expressed by the Auditor General and other legal counsel as to the propriety of the foregoing under subsection (2) (b) of section 17 of the Canada Council Act the Committee has postponed further consideration of this matter until the next session.

38. At that time consideration will also be given by the Committee to its 1961 recommendation concerning the Council's need for increased resources for purposes of its work.

### AUDITOR GENERAL'S REPORT, 1961-62

39. Your Committee considered, paragraph by paragraph, the Auditor General's Report for the fiscal year ended March 31, 1962, up to and including paragraph 74 on page 28, as well as paragraphs 84, 114 and 140. As a result of this consideration, the Committee makes the following comments and recommendations:

*Summary of Employees authorized for the Public Service by Departments, Crown Corporations and Other Instrumentalities* (Paragraph 5 and Appendix 6)



40. The Committee expressed interest in this summarized listing showing the numbers of employees authorized for the public service, by departments, Crown corporations and other instrumentalities at the close of each fiscal year in comparison with the numbers at the close of the preceding year and commended the Auditor General for assembling and furnishing such an informative listing for the purpose of explaining the second largest object of expenditure in federal spending.

41. The Committee requested the Auditor General to continue to prepare this comparative listing annually and, effective with his Report for the fiscal year 1963-64, to include therein a more detailed breakdown of the various departmental and Crown corporation establishments by divisions and sub-divisions together with the numbers of employees actually on strength at March 31st, for the purpose of showing the size of each establishment's organization on a still more informative comparative basis.

*Internal Financial Control (Paragraphs 15 to 18)*

42. The Committee expressed interest in the comments of the Auditor General regarding the importance of adequate internal financial control in departments and Crown corporations, particularly the need for more effective use being made of staffs engaged in internal auditing work.

43. The Committee requested the Auditor General to continue his examinations into this important area of internal financial control and to report further to the House on steps taken or which should be taken to improve financial management in the various departments, Crown corporations and other instrumentalities.

*Questionable charge to Vote 611 (Paragraph 56)*

44. The Committee noted that although no authority was contained in the wording of Vote 611 for the charge, administrative expenses amounting to \$94,157 incurred by the Canadian Wheat Board in making payments to the western grain producers had been charged to this appropriation by the Department of Agriculture.

45. The Committee recommends that closer attention be paid by the Department of Agriculture to seeing that the wording of estimates items provides for charges of this nature, failing which such charges should not be made thereto.

*Government contributions not made to superannuation accounts (Paragraph 62)*

46. The Committee was concerned to note that no contributions had been made to the Public Service Superannuation Account, the Canadian Forces Superannuation Account or the Royal Canadian Mounted Police Superannuation Account as required by their respective Acts to provide for increases in benefits payable as a result of salary and pay increases during the fiscal years 1960-61 and 1961-62. Evidence was given by the Deputy Minister of Finance to the effect that the Department felt that such increases were not in the nature of general pay increases as set out in the Statutes. As a consequence, no charges with respect to these liabilities were made to expenditure and the present considerable actuarial deficiencies in these superannuation accounts have continued to mount.

47. The Committee feels that steps should be taken promptly by the Executive to remedy this situation and urges the Minister of Finance to give the matter his early attention.

*Errors in Public Service Superannuation Account pension and contribution calculations (Paragraph 63)*

48. The Committee noted with concern that a high incidence of error has continued in the Superannuation Branch of the Department of Finance involving both overpayments and underpayments of pension on a continuing basis and also incorrect charges for contributory service. The steps that are being taken by the Department of Finance towards remedying this state of affairs were noted.

49. The Committee requests the Auditor General to keep Parliament informed as to the progress being made.

*Interest charges on loans to the National Capital Commission (Paragraph 66)*

50. The Committee noted that the National Capital Commission remains in the position where it is required to pay interest on loans obtained from the Government of Canada for the purpose of acquiring property in the National Capital Region, and that funds to meet the interest payments themselves must be provided through parliamentary appropriations because the property held does not yield sufficient revenue. It further noted that parliamentary appropriations may be required to provide funds through the National Capital Fund in order to pay off the amounts of the loans made.

51. Since outlays on properties such as these are expenditures of the Crown rather than income-producing investments, the Committee believes that it would be more realistic were Parliament asked to appropriate the funds in the years in which properties, which are not to be specifically held for resale, are to be acquired instead of leaving the expenditure involved in the repayment of loans to be absorbed in future years. Accordingly it recommends that the Executive review the present practice with the National Capital Commission with a view to placing the financing of the Commission on this more realistic basis.

*Indirect compensation to chartered banks (Paragraph 68)*

52. In considering the question as to whether or not the balances maintained by the Government of Canada with the chartered banks interest-free to the level of \$100 million constitute indirect remuneration, the Committee was assisted in its deliberations by the Deputy Minister of Finance who outlined the arrangement which has been in effect since January 1, 1957 whereby the banks pay interest to the Government of Canada on the amount by which minimum weekly balances are in excess of this sum.

53. The Committee is in agreement with the view of the Auditor General that this arrangement does constitute indirect compensation to the chartered banks and that this may be construed as being contrary to the intent of section 93(1) of the Bank Act. The Committee believes that if the banks are to be compensated for services provided to the Crown, consideration should be given to the most equitable manner in which this may be done with statutory sanction being given by means of an appropriate amendment to the Bank Act, possibly at the time of the decennial revision in 1964.

*Living allowances to federally-appointed judges (Paragraph 71)*

54. The Committee noted that in cases where federally-appointed judges are appointed from time to time as conciliators or arbitrators on boards, they are paid living allowances of \$60 a day in addition to actual out-of-pocket expenses for transportation, parlour and pullman car accommodation and taxicabs.

55. The Committee is of the opinion that a daily rate at this level could be regarded as including an element of remuneration which would be contrary to subsection (1) of section 39 of the Judges Act. It is therefore recommended that

if additional remuneration is to be paid to judges appointed as conciliators or arbitrators on boards established to deal with disputes affecting employers and their employees, then the approval of Parliament for payment of the additional remuneration should be sought.

*Unemployment Assistance (Paragraph 84)*

56. In the course of its consideration of the problems arising from the administration of the Unemployment Assistance Act, the Committee was assisted in its review by the Deputy Minister of Welfare who referred at length to the problems encountered in administering this legislation across Canada.

57. The Committee shares the opinion of the Deputy Minister of Welfare and the Auditor General that consideration should be given by Parliament to redrafting the Unemployment Assistance Act so as to state more clearly the objectives and methods of achieving them and to remove ambiguities in the present law which have resulted in varying interpretations. It believes that consideration should also be given to including with Unemployment Assistance other existing programs to assist the needy so as to provide better co-ordination of federal-provincial efforts in this field.

GENERAL

58. The importance of maintaining parliamentary control over financial matters is the paramount concern of this Committee. It is therefore expected that its recommendations will be given close attention by the departments, Crown Corporations and other agencies, and the Committee requests that each deputy minister concerned advise the Auditor General within three months from this date as to what action has been taken on matters on which the Committee has made recommendations in this report.

59. In accordance with the practice followed by the Committee in its reports to the House for the past three years, the Auditor General is again requested to report to the Committee in due course on the action taken by the various government departments, Crown Corporations and other agencies, toward implementing recommendations contained herein.

60. Your Committee desires to express its appreciation to the Auditor General and the members of his staff who were continuously present during the proceedings, and also to all the other witnesses including the members of the Canada Council who appeared before the Committee. Your Committee also wishes to record its satisfaction with respect to the results achieved by reason of the diligence of the Auditor General in following up the recommendations made by the Public Accounts Committee in previous years.

A copy of the relevant Minutes of Proceedings and Evidence, Nos. 1 to 9, is appended.

Respectfully submitted,

G. W. BALDWIN,  
*Chairman.*





## MINUTES OF PROCEEDINGS

FRIDAY, December 13, 1963.

(11)

The Standing Committee on Public Accounts met this day at 9.20 o'clock a.m. The Chairman, Mr. G. W. Baldwin, presided.

*Members present:* Messrs. Baldwin, Crouse, Fane, Gendron, Harkness, McMillan, Nowlan, Plourde, Regan, Ricard, Rock, Ryan, Southam, Stefanson, Tucker, Valade, Wahn.—(17).

*In attendance:* Mr. R. B. Bryce, Deputy Minister of Finance; Mr. H. D. Clark, Director of Pension and Social Insurance Section, Department of Finance; Mr. A. M. Henderson, Auditor General of Canada; and Messrs. Long, Miller, Rider and Laroche from the Auditor General's office.

The Committee resumed consideration of the Auditor General's Report for the year ended March 31, 1962.

The Chairman announced that the Subcommittee on Form of Estimates completed its Report which will be considered by the Main Committee at the first sitting, *in camera*.

The Chairman also advised this was the last meeting to examine witnesses and commencing next Monday the Main Committee would meet *in camera* to consider the Report of the Subcommittee on form of Estimates, as well as the Report of the Main Committee.

Mr. Bryce made a statement on *Advances to Exchange Fund Account*, referred to in the Auditor General's "Follow-Up Report" and paragraph 141 of the Auditor General's Report (1962), and was examined thereon.

Mr. Henderson commented briefly on Mr. Bryce's statement and supplied supplementary information.

On paragraph 64, *Questionable revision of basis for calculation of annuity*, and paragraph 65, *Payment under pension plan for employees engaged locally outside Canada*. Mr. Bryce reviewed these matters and was examined thereon.

Mr. Henderson expressed his views on these paragraphs and was also examined.

On paragraph 66, *Interest charges on loans to the National Capital Commission*, Mr. Bryce supplied supplementary information and was examined.

Messrs. Henderson and Long commented on this subject.

On paragraph 67, *Deletion of Debts due to the Crown*, Mr. Bryce commented briefly.

On paragraph 68, *Indirect Compensation to Chartered Banks*, Mr. Bryce reviewed the background of this matter, supplied supplementary information and was examined thereon.

*Agreed*,—That extracts from submission to the Royal Commission on Banking and Finance by the Canadian Bankers Association relating to Government of Canada Deposits, be printed as an Appendix to this day's Evidence. (*See Appendix*).

The questioning of witnesses being concluded, the Chairman thanked Mr. Bryce, the Members of the Committee, Mr. Henderson and his staff, for their assistance.

At 10.55 o'clock a.m., the Committee adjourned until 11.00 o'clock a.m., on Monday, December 16, 1963.

MONDAY, December 16, 1963.

(12)

The Standing Committee on Public Accounts met, *in camera*, at 11.05 o'clock a.m. The Chairman, Mr. G. W. Baldwin, presided.

*Members present*: Messrs. Baldwin, Cameron (*Nanaimo*), Crouse, Fane, Forbes, Harkness, McMillan, Muir (*Lisgar*), Noble, Nowlan, O'Keefe, Plourde, Regan, Rock, Southam, Stefanson, Tucker.—(17).

A "draft" Report was presented by the Subcommittee on Form of Estimates and following its consideration and amendment, was adopted, and the Chairman ordered to present it to the House as the Committee's Third Report.

The Committee then proceeded to the consideration of its "draft" main Report.

At 12.30 o'clock p.m., consideration of the "draft" report still continuing, the Committee adjourned until 3.30 o'clock this afternoon.

#### AFTERNOON SITTING

(13)

The Committee resumed, *in camera*, at 3.50 o'clock p.m. The Chairman, Mr. G. W. Baldwin, presided.

*Members present*: Messrs. Baldwin, Berger, Cameron (*Nanaimo*), Crouse, Fane, Forbes, Harkness, McMillan, Muir (*Lisgar*), Noble, Regan, Richard, Rock, Scott, Southam, Stefanson, Starr, Tucker.—(18).

The Committee resumed discussion of its "draft" main report, and following its consideration and amendment, was adopted, and the Chairman ordered to present it to the House as the Committee's Fourth Report.

At 4.55 o'clock p.m., the Committee adjourned to the call of the Chair.

M. Slack,  
*Clerk of the Committee.*



## EVIDENCE

FRIDAY, December 13, 1963.

The CHAIRMAN: Gentlemen, I see a quorum. We will open the meeting.

Before we start with the business I have an announcement to make.

I am very happy to say that the subcommittee on the form and contents of the estimates, under the Chairmanship of Mr. Wahn, has completed its report, which is now in my hands, which will be dealt with at the first meeting in camera when we come to consider the report which the committee will be submitting.

The subcommittee did a great deal of work at nights with the co-operation of Mr. Henderson and Mr. Steele, and they are entitled to considerable credit.

Today will be our last meeting because on Monday I am assuming that we will be meeting in camera to consider the report of the subcommittee and also our own report dealing with other matters we have considered. This is a condition precedent to having the report completed and reporting to the house before prorogation. I hope today we can complete the assignment we have set ourselves and which will include hearing from Mr. Bryce on the several items which were mentioned before, and of course, any questions and comments by the members of the committee.

As it appears now, we will be winding up today and we will meet on Monday, at the usual time, but in camera to consider our report.

As you know, Mr. Bryce was here before and we are very happy to have him back today to complete the comments he wishes to make. We have dealt with paragraphs 62 and 63 in the Auditor General's report. There was one matter with which we did not deal because Mr. Bryce was not aware it was to be discussed last Friday and it was stood; this was from the follow-up report of the Auditor General, and you will find it at page 16 of the follow-up report. This deals with the question of advances to the exchange fund account. I am going to ask Mr. Bruce if he will be good enough to comment on this. Having disposed of this item, we will then move on to consider items 64 to 68 inclusive, which are the other items in the main report of the Auditor General with which Mr. Bryce is concerned.

Mr. Bryce, will you deal with this question so far as you are able to at this time in regard to advances to the exchange fund account.

Mr. R. B. BRYCE (*Deputy Minister of the Department of Finance*): Perhaps it would be helpful if members took note for a matter of information, of paragraph 141 in the Auditor General's report which is before the committee, since that supplies up to date information which bears on the paragraph in the follow-up report. We have looked into this matter in the department fairly extensively, if not conclusively, as a result of the Auditor General's observation in his reports and his follow-up reports and particularly, of course, as a result of the paragraph in the public accounts committee report, to which reference is made in the follow-up report and in paragraph 141 at the bottom of page 76 in the main report.

I find that a draft report had been prepared in 1962 and approved by the minister of finance at the time and approved early in 1963 by the then minister of finance, but it had never been presented to the committee so there had been no discussion of it in the committee in 1962 or in the earlier session in 1963. In the meantime the situation has been overtaken by the change in the exchange

position that is recounted by Mr. Henderson in paragraph 141 on pages 76 and 77 of his report, which really called for a rather different content of the report; therefore the report prepared in 1962 is really out of date and will have to be revised in its substance because, as the Auditor General knows now, there has been a reduction of the large deficiency to which he pointed there.

The accumulated deficiency has been reduced to much smaller dimensions. Moreover, my own view is, after going over the earlier report, that it should be modified in detail to provide more information and explanations than were given in the draft, and we would like to do this. The present Minister of Finance has not had an opportunity to review this matter sufficiently to present a report to the public accounts committee on this subject. He has been tied up, as hon. members will realize, on other urgent business coming before parliament and has not had an opportunity to devote sufficient attention to this one. Consequently, I am unable to present a report now, of the nature requested, on his behalf. We propose to go over the subject in detail with the Bank of Canada which operates the accounts on behalf of the minister and with the Auditor General, and, if the committee approved, we would submit a report to the committee at the next session of the house. However, I should say that there is a very real problem here in regard to the treatment of profits and losses in the account arising from the re-evaluation of the holdings of foreign exchange coming from changes in the exchange rates between the dates at which the accounts are revalued.

As hon. members will realize, we have here something in the order of \$1½ billion of foreign exchange whose value, in terms of our accounts depends, of course, on the exchange rates between the Canadian dollar and the other currencies at the time the evaluation is made. The essential problem is how far should changes in the Canadian dollar equivalent in this foreign exchange be reflected in the main accounts of the government from year to year as a result of changes, either minor or major, in the exchange rates between the Canadian dollar and the other currencies. I would like to suggest to the minister that he present arguments pro and con the accounting problems involved reflecting these revaluation profits or losses in the main accounts of the government, the consolidated revenue accounts.

These, I think, should be distinguished from the profits and losses due to trading operations. Hon. members will recognize that in the operation of an account of this nature, which involves not only the purchase and sale of foreign exchange from day to day but also the purchase and sale of securities, mainly of course United States government securities, in which we invest moneys in this account—the foreign exchange—in order to get as much as we can out of it. These operations give rise to minor trading profits and losses from week to week, and these must be taken into account as well as the major changes which I have spoken of arising from the changes in the exchange rate itself, between Canada and other countries. We feel it is desirable to try to distinguish these as clearly as we can and explain how they bear on the recommendations which the Auditor General has made in his report for this year and earlier years.

Some of these changes are noted in fair detail in the report which the Minister of Finance makes from year to year on the operation of the exchange fund itself, particularly in the mimeographed notes which hon. members will find appended to that report as submitted and tabled in the house from year to year, but which are not normally reprinted in the public accounts themselves.

If hon. members interested in the details of this matter would wish to follow it, I think it can best be done by referring to these mimeographed supplements to the reports to the house which have been tabled from year to year, and we would propose in the report made to the committee to make reference to these in the explanation of the situation and the course of action which will be followed.

Perhaps I might be allowed to make one observation about the substance of the matter in concluding my opening statement. The general picture as I understand it is that there have not been net losses from trading operations in the account but modest profits over the course of many years which have been offset against losses in these past years arising out of the re-evaluation of the foreign exchange assets. The re-evaluation from year to year has given rise to losses, and there have been modest trading profits to be applied against them, but I think it is best that we should present a detailed account to the committee in which these figures can be set forth systematically and upon which it can base its discussion.

The CHAIRMAN: Thank you, Mr. Bryce.

I assume this matter will be dealt with in your report which will be made to the house next year.

Mr. A. M. HENDERSON: (*Auditor General of Canada*): Yes, Mr. Chairman, it is the subject of comment in my forthcoming report for the year 1963.

I might add that I think Mr. Bryce's proposal to examine this matter in more detail in the months ahead is a sensible one. It would seem to me to be quite satisfactory in the circumstances.

The CHAIRMAN: In the light of this suggestion that the matter will be before the standing committee to be established for the ensuing year and, as Mr. Bryce has pointed out, the desirability of having a full and complete discussion with perhaps the Minister of Finance being present, do the members feel that this would be an agreeable course, or are there any questions anyone would like to put to Mr. Bryce and Mr. Henderson at this time?

Mr. McMILLAN: Would the investment in American securities be mostly short term call loans and so on?

Mr. BRYCE: Normally they are United States government short term securities.

Mr. McMILLAN: Would not depreciation of our dollar show a gain in that account?

Mr. BRYCE: Yes, that is why, as Mr. Henderson has noted in his report, when the value of our dollar was high in relation to the American dollar there was a deficit. As our dollar in the last several years came to be less than the United States dollar, then the United States assets we held were worth more.

Mr. SOUTHAM: That is made clear on page 77.

As the exchange value of the U.S. dollar equalled \$1.05 Canadian (i.e., the Canadian dollar approximated \$0.95 U.S.) at close of business on March 31, 1962, compared with an exchange value of \$0.99 Canadian a year earlier, a substantial exchange gain unrealized, arose in valuing the fund's U.S. dollar holdings, which had the effect of reducing the accumulated deficiency... The subsequent official revaluation of the Canadian dollar... has had the effect of eliminating the deficiency entirely.

It is an interesting item as far as public accounts are concerned, and shows how it affects our exchange fund account.

Mr. HENDERSON: I might mention, for the information of members, that on page 133 of the report you will see a summary of the transactions in this particular account and what it is made up of at the end of the period. It is shown for 1960 and 1961. You will see the two columns for both years and how the transactions for the year and the balance as at December 31, 1961, was something in excess of \$2 billion. This is represented principally by United States dollars and securities.

Mr. SOUTHAM: I understood Mr. Bryce to say that any surpluses in our exchange fund account quite often are turned into American funds. Is that right?



Mr. BRYCE: The main purpose of the account is twofold; in it we hold our main exchange reserves so we can meet any requirement for foreign exchange out of it, and we operate in the account from week to week in order to meet fluctuations in the supply and demand of foreign exchange in terms of Canadian dollars. As you will note from the figures Mr. Henderson has referred to on page 133, we held a large proportion of the reserves in gold but a large share still is held in United States dollars and securities. The bulk of that item would normally be in United States government securities rather than bank loans.

Mr. SOUTHAM: I think the suggestion Mr. Bryce has made of having the Minister of Finance prepare a statement for the next sitting of this committee in the next session of parliament would be the logical approach. The problem has arisen chiefly owing to the fact that we have been tied up in two elections and our whole process has slowed down a little.

The CHAIRMAN: Thank you Mr. Southam.

If the committee feel this has been a good preliminary canter before the next committee meets, may we turn to paragraph 64 in the Auditor General's report, which you will find at page 21. There are four or five items—64, 65, 66, 67 and 68—with which we should deal. But perhaps we may start at 64.

64. *Questionable revision of basis for calculation of annuity.* An employee of a government agency became a contributor to the superannuation account in 1944 and elected to contribute for prior part-time service as a consultant to the agency. In this former capacity, during a period of seventeen and one-half years he had received \$40,800 from the agency while drawing \$70,000 in salary from his principal employment. A credit of half-time for the prior service with the agency was requested for superannuation purposes but, after due consideration, the superannuation branch decided, in 1945, that it was prepared to accept the election on the basis of only four months to the year, this being more closely proportional to the earnings.

In 1961, on the eve of the contributor's retirement, and as a result of further representations, service of six months to the year was allowed for the prior part-time service, with the result that there was an increase of \$877 per annum—from \$6,865 to \$7,742—in the annuity that was authorized for payment.

I shall now call on Mr. Bryce.

Mr. BRYCE: Thank you, Mr. Chairman.

After seeing the Auditor General's observations in this case I got out the papers and looked at it myself. You will note the point to which he has drawn attention—and I think in principle it is a proper thing to which to draw attention—is that the branch has revised the basis on which the prior part-time service of a contributor who was in one of the government agencies was calculated. The case relates to an officer of a crown agency who had earlier served on a part time basis as professional consultant. What is at issue is the determination of the fraction of full time which his part time services should be regarded as having comprised. The original decision as noted in the Auditor General's report was based on a rough comparison of the earnings received by this contributor as a consultant for the agency compared to his earnings from other employers, and the figures here are given over the period of 17 years. This decision was taken notwithstanding the statement of the agency at the time that it felt it would be fair to consider the consultant as having served half time for the purpose of payment of contributions for prior service. What is at issue here is not the amount of contributions he makes, which is determined by the amount of pay he receives, but rather what fraction of a year it counts in terms of counting the final annuity to which he is entitled.

When the matter was raised in 1961, some 16 years later, it was reviewed at that time and it was considered in the light of the practice being followed at that time for other cases of a similar nature. In other words, what fraction of full time these services could count. The practice followed at that time, I am informed, was that the amount of pay the man received as a consultant was compared not with what he received from other employers outside but rather with what he would have received had he been employed full time for the agency concerned. Assessing the matter in this way, the conclusion was reached that approximately half time would be a reasonable evaluation of the matter, as the agency had proposed in the first instance. This was supplemented by some effort to find out the real time spent on the work of the agency as compared with relative earnings. In this particular case it should be noted that when this gentleman was consultant to the agency he in fact exercised a considerable measure of executive authority in the agency's affairs, and in fact served in place of the chief full time officer of the agency for several months in the year when the latter was away on leave. The branch felt, and I feel on reviewing the matter, that the original request of the agency was warranted and that the decision to grant it in 1961 was justified.

The CHAIRMAN: Thank you, Mr. Bryce. Have you any comment, Mr. Henderson?

Mr. HENDERSON: No, I have no comment on that explanation, Mr. Chairman.

The CHAIRMAN: May we pass on to the next item in view of Mr. Bryce's explanation?

This is No. 65 and refers to payment under pension plan for employees engaged locally outside Canada.

65. *Payment under pension plan for employees engaged locally outside Canada.* Pension plans for employees engaged locally (a) in the United States and (b) in the United Kingdom and the Republic of Ireland, were established with the approval of the governor in council in 1957, and reference was made to these plans in our 1958 report (paragraphs 56 to 59). In its Second Report, 1959 the standing committee on public accounts commented on these plans and stated:

It was drawn to the notice of this committee that the Public Service Superannuation Act excludes from its benefits 'an employee engaged locally outside Canada' and that the sole authority for entering into the arrangements was a vote having this text: 'government contributions to pension plans for employees engaged locally outside Canada'. Therefore, the matter before the committee was whether the text of this vote was sufficiently explicit to vary a statement of policy enunciated in the Public Service Superannuation Act.

It is a commonplace to say that, save when the prerogative is applicable, public administration derives its authority from some provision in a statute and that, while the text of a vote may be such as to result in an enactment, such an intent should be clearly stated. The reason is that the object of supply and appropriation being simply to furnish the crown with authority and opportunity to draw on consolidated revenue fund, the committee of supply should never be presumed to be simultaneously determining the law applicable, save and except when the text of the item necessitates.

In the present cases, contracts have been negotiated and a substantial number of persons have been contributing for over a year. In the circumstances, your committee accepts the status quo

but records that it is of the opinion that legislation is desirable before any like arrangement is entered into with respect to locally engaged persons in any other country.

In June 1961, notwithstanding the opinion thus expressed by the committee, the treasury board authorized a non-contributory pension plan for employees engaged locally in countries other than the United States, the United Kingdom and the Republic of Ireland and to whom the previously established pension plans did not apply. In so doing, the board apparently relied on the general authority granted to it under section 7 of the Financial Administration Act to make regulations prescribing conditions of employment of persons in the public service, and "for any other purpose necessary for the efficient administration of the public service".

In the audit office view, it is doubtful if appropriate authority for the action taken is, in fact, provided by this section because future Parliaments are thus morally committed to provide funds for a pension scheme in respect of which no Parliament has been asked to legislate.

A single benefit under the new non-contributory plan—a lump sum payment of \$735—was charged during the year under review to the annual vote for "government's contributions to pension plans (and death benefit plans) for employees engaged locally outside Canada who are excluded from the Public Service Superannuation Act" (Vote 124).

Mr. BRYCE: This raises a completely different kind of problem, one which is really more a matter for lawyers and members of parliament and the minister than for civil servants. We, of course, have taken note in the department of the observations of the Auditor General on this matter, and particularly the observations the committee made in 1959, which he quotes. As a department we would be prepared to get legislation ready to authorize these benefits for employees engaged locally outside Canada.

I should point out that either one of two things would be necessary. Either such legislation would have to be very general in nature, indeed so general as to constitute little more than what is covered in the appropriation for the purpose; or else we would have to have very detailed provisions to apply to the various countries in which we operate, and these very well might have to be changed from year to year.

The kind of provisions we have depends on the country in which our people are working, and the normal practices followed by employers, or practices required by law in such countries. Usually there are, I suppose, at the most a few dozen employees covered in each country. Therefore, the problem would be to either keep up with detailed legislation with changes occurring in these various countries where we are operating, because we try to follow local customs, or to have very general legislation which merely would be the kind of endorsement by parliament of the policy followed which, we take it, normally is acquired by the approval of this item from year to year in the estimates and the Appropriation Act.

We have been told by lawyers that as a matter of statute law the Financial Administration Act together with the various Appropriation Acts constitute adequate statutory authority to carry out these and similar operations.

The report of the committee in 1959 says: "Save where the prerogative is applicable". This gets into a branch of law where any normal bureaucrat fears to tread; but I always understood the prerogative in matters of this kind is pretty wide, limited only by statute or limited by the ability of the sovereign to obtain moneys from a reluctant parliament. In this case, the limitation really is on the moneys obtained through the Appropriation Act. When we



take that, together with the general power given under the Financial Administration Act, we have felt there was an adequate legal base; but I would not venture to offer the committee an opinion on that matter.

There is a particular item referred to in the last paragraph of item 65 to which I might speak at this point or later, Mr. Chairman.

The CHAIRMAN: You might as well deal with it now.

Mr. BRYCE: This particular item relates to the payment of an actuarial equivalent lump sum in lieu of a small pension. I may say this was done in Japan and that it follows the normal practice where it is not practicable to make payments of a small sum by cheque. The minister acts here on the recommendation of the head of the post in the country in which the problem arises; that is, the head of our diplomatic mission in this country.

In this case, the retired employee was entitled to a small annuity and would have had to make a long journey to the embassy in Tokyo each month. He suggested he get the lump sum based on expectancy of life. In the light of the circumstances the ambassador recommended this form of settlement and it was made.

The CHAIRMAN: Do you have any comment, Mr. Henderson?

Mr. HENDERSON: I would only say this; it is my duty to draw to your attention instances where it would appear that the treasury board may have overstepped the requirements and the intent of the law. When the committee was discussing similar instances in 1959, while they accepted the status quo, they did give it as their opinion that legislation is desirable before any like arrangement is entered into.

With regard to locally engaged persons in any other country, although we have not obtained any legal opinion on this point, to my knowledge, the question does arise, as I say in the last paragraph of this section on page 22, that it would seem to us doubtful whether the authority I have quoted, section 7 of the Financial Administration Act, is sufficient authority for the action which was taken, because future parliaments accordingly are morally committed to provide funds for a pension scheme in respect of which no parliament has been asked to legislate. The treasury board, as Mr. Bryce has outlined, has relied on section 7 of the Financial Administration Act which gives them authority to make regulations prescribing conditions of employment of persons in the public service, and for any other purpose necessary for the efficient administration of the public service.

This matter has been raised by us, since 1959, and we continue to watch it. You may feel, under the circumstances Mr. Bryce has described, that they have brought a realistic approach to the problem, and that perhaps they are correct in their assumption that they should have gone ahead. However, as I pointed out to you, I would be failing in my duty if I did not bring borderline cases of this type to your attention.

The CHAIRMAN: You heard the explanation in both cases. Are there any questions?

Mr. HARKNESS: I think this is an area in which a certain amount of flexibility is essential. From what Mr. Bryce has told us it would seem there is a good possibility there is sufficient legal authority for payments of this kind; if such is the case, I would think the situation is quite satisfactory.

Mr. CROUSE: I agree with the comments of Mr. Harkness. I think that if anyone employed by the Canadian government should be posted to some other country, I cannot see why their superannuation benefits should be prejudiced in any way. I agree there should be this flexibility which permits the department to proceed to make payments on their behalf.

Mr. McMILLAN: Are these payments made pursuant to order in council?

Mr. BRYCE: Yes; they are made pursuant to the regulations that the treasury board lays down and which, of course, embody payments which are authorized.

May I say one thing in respect of the previous question. This does not apply to regular civil servants hired in Canada and then transferred abroad. This applies to employees whom we hire in other countries.

Mr. VALADE: Is there any particular demand for a strict legal definition by either the Minister of Finance or someone in this regard? Is that the purpose of the observation?

Mr. HENDERSON: The purpose of the observation is that it is my duty to bring cases of this type to your attention if I feel parliament's intention perhaps is being circumvented.

Mr. VALADE: I like your word "perhaps".

Mr. HENDERSON: There is no doubt the approach Mr. Bryce described is a realistic one. I have every sympathy that it is in the interest of efficient administration of the public service, which is what the Financial Administration Act calls for.

Nevertheless, in establishing pension arrangements for locally engaged staff abroad they are committing future parliaments. The previous committee said that in such instances they felt legislation was desirable; that is, that you might want to legislate.

Mr. VALADE: Could the Auditor General provide for a certain leeway or a certain margin in this kind of situation? I do not think it is so generalized that it cannot be forecast from year to year, or a year in advance, if you understand what I mean.

Mr. HENDERSON: If you brought in legislation, as you say, it would have to be legislation of a general nature designed to embrace the pension needs of different sets of locally engaged staffs in the years ahead. I think Mr. Bryce mentioned that would be a rather difficult thing to frame and to forecast.

However, I have every sympathy with the point of view advanced by Mr. Harkness and Mr. Crouse on this; that it is a question of getting on with the job in the interest of efficient administration. If that is your view, it would satisfy me.

Mr. VALADE: That is my view.

The CHAIRMAN: If there are no other questions, may we proceed to item 66, which deals with interest charges on loans to the national capital commission.

Mr. BRYCE: Mr. Chairman, I must say that I welcome the opportunity provided by this paragraph. I was one of those who helped to set up this arrangement some years ago. I should have come here equipped with the date, I suppose. I have felt that its purpose and value were not fully understood. I, myself, think it has a value and a sensible purpose; but, I must be careful to remain a neutral civil servant in giving the explanation.

This has been a policy of successive governments, rather than of the national capital commission itself, and I suspect the national capital commission would much rather follow the suggestion of the Auditor General in the final paragraph under this item on page 23; that is, receive the money and not worry about paying interest on it.

By way of background, I might say that the national capital commission buys a good deal of land, not for immediate use, but essentially for one of two reasons: first, to hold pending use, because by the nature of its operations, it has to plan in advance and indicate in advance that it is going to acquire property in certain areas and, if that is the case, over the years it has been found to be prudent and economical to buy that property when the decision is taken to go ahead with plans to use it at a future time.

The second purpose for which it buys property—and it seems to me this is a matter of very important principle—is to have the property in order to control the use of it. I think probably this is unique. It is a matter which parliament decided in passing the National Capital Act some years ago.

Hon. members will recognize that in the national capital area parliament does not have jurisdiction to control the use of land; it does not pass laws saying that the land shall be used for this purpose rather than that purpose, or things of this sort. So, some years ago it was decided, where it was necessary to control the use of land, that the government through the national capital commission should purchase the land and then lease it, for the various purposes which should be permitted, and control it as owner rather than as a government. I may say that this was done after considerable consultation with the province of Ontario in which most of this land was situated. This course of action was one which the government took in the light of the opinions of the province and the decision on the part of the province that it did not wish to put in special legislation to control the use of the land in the national capital area.

Well, it is out of that kind of operation—these two types of operation—that the need for this arrangement arises. These interest charges are charges for loans made to the commission by the government to purchase land for one or another of these two purposes. That is to say, to hold for some years pending its use by the government, or to hold indefinitely in order to control the use of the land.

By requiring the commission to borrow the money from the government for this purpose and to pay interest on it, the commission is put under some pressure to get all the revenue it can out of that land while holding it for these purposes. Of course, this means that each year they have to justify to the treasury board the revenue they are getting for it and the government in turn is required to justify to parliament the revenue it is getting from it, and reflect to parliament and the public the cost of holding this land either for the years in advance of putting it to use, or for holding it indefinitely in order to control its use.

Now, there is a question which arises in the operation of this account in respect of whether the payments are made promptly; that is, whether the charges are made to expenditures promptly when the land is put to use. There is a real problem involved in doing this. In the small table on page 23, you will note that Mr. Henderson has included an item for \$3 million for loans to acquire land for Queensway purchase. I believe these are the former railway lands which came into possession of the commission as a result of the railway relocation plan around Ottawa. According to the understanding on which these accounts are set up, the land will be charged to expenditures when it is put into use.

As hon. members will realize, the Queensway is a big project and there is a nice point in respect of just when the land will come into use. The Queensway is being built in stages and consequently, in my opinion, the land ought to be charged to expenditures as that part of the project comes into use. I cannot give you the details, and if you wish to go into that, you should have a witness from the national capital commission.

I cannot tell the committee whether these loans are charged to expenditure promptly as parts of the Queensway have, in fact, come into use. However, that is the idea behind the arrangement; that is, that as soon as the land is committed and improvements or buildings put on it, it then should be charged to expenditure, as the Auditor General has suggested it should. The issue is whether it should be charged to expenditure at the time it is acquired or after it is committed to use.



In the case of the green belt—where of course by far and away the biggest amount is involved—the government has acquired tens of thousands of acres of land surrounding the city for the purpose of controlling the use of the land over a long term period in the future. In the treasury board, at the time this was done, we came to the conclusion that over the years this would be a sensible investment as well as being a proper way to control the plan of the capital and its development. There appeared to be no other way to achieve that purpose. However, we felt parliament should be aware, from year to year, of what it costs to maintain and to control all the land in the green belt. That is what is reflected in the interest charges parliament is asked to vote.

The commission is expected to put the land to as good use as it can, and rent it for what it probably can get for it. Over the long period we would expect those lands to reflect the rising value of land in a suburban area such as this; but the net interest to be voted is the cost of preserving the area for the limited purposes established in order to control its use.

Now, the land remains as a tremendously valuable asset which could be sold and marketed for other purposes if the policy of controlling its use for these limited purposes was changed. So, I think to ask parliament to vote this interest is a reasonable way to reflect the cost of holding the land for these purposes which I have described.

The CHAIRMAN: Mr. Henderson, do you have any comment?

Mr. HENDERSON: I would like to ask Mr. Long if he would care to say something.

Mr. G. R. LONG (*Audit Supervisor*): One reason this was brought up is that one of the tests in setting up assets of the government of Canada on the balance sheet is that they be revenue producing. We are unable to see how, when parliament has to provide the interest, the loans can be regarded as revenue producing. These loans appear as assets on the balance sheet of Canada, and there is no doubt that the land is valuable, but so also are government buildings, and such buildings are not placed on the balance sheet, and are not considered as an asset of Canada in the thinking which goes into the present statement of assets and liabilities. This land seemed to be very similar.

In respect of the Queensway, a great part of the expenditure is for the purchase of city lots, and homes which were destroyed for the widening of the Queensway. By doing it in this way, some minister of finance at one particular time is going to have to provide all the money to cover the full cost of the Queensway when it is finally turned over to, I believe, the city of Ottawa. As I understand it, there has been no partial turnover as yet, even though part of the Queensway is in operation.

This method of controlling the use of land has been used in relation to some of the larger airports, and I believe this is the only time land has been reported as one of the assets of Canada—the reason being that it was going to be resold. Primarily the green belt land is farm land; it could not, as farm land, hope to produce income to pay the interest which presently is being charged. As we understand it, the idea of holding it is to maintain a green belt around Ottawa, and limit the expansion of the city so that it is unlikely it ever will become industrialized. So long as this policy is followed, it is going to be kept as an open space. If this policy continues to be followed, we will go on for years to come, voting money, thereby increasing the recorded expenditures and revenues of Canada.

Mr. CROUSE: Are we still acquiring green belt property?

Mr. LONG: All of the properties are not finalized yet. There are payments being made even yet, although the number is diminishing.

Mr. CROUSE: To what extent do we acquire property? There must be a plan covering the acquisition of lands for the green belt. How many miles would this plan cover? Is it 10, 15, 20, or how many miles from Ottawa?

Mr. BRYCE: I did not bring the plan; I am sorry. Roughly it is a belt about a mile to a mile and a half wide around the city from the river on one side and around back to the river on the other. If I am not mistaken I think it nearly all has been acquired now, but as Mr. Long said, in some cases the settlements have not been finalized. The main acquisitions going on now are in respect of what is called the LeBreton flats. This is being acquired in order to be used by the government for buildings and for development by the national capital commission for parkways, roadways and park purposes.

I might make one point in respect of Mr. Long's observations which are quite germane and certainly should be considered by the committee. I agree in general that we want to test the assets which we put in our statement of assets in the balance sheet, and which we do not charge to expenditures right away; we want to have a test in respect of whether they are immediately available like cash, or whether they yield us a financial revenue. The difficulty here is that this yields us some revenue. I am not as pessimistic as Mr. Long. I think it will yield us more and more revenue as time goes on. Because the uses of the green belt by no means are restricted to farming purposes, as time goes on, we should get more revenue out of it.

There is a conflict here between what is desirable for the reasons I have mentioned—firstly, to enable parliament to know the cost to hold this land; and, secondly, to keep the proper managerial pressure on the commission to get the revenue it can out of it—and this problem of the value of the assets we keep on our balance sheet.

I do not like to put any assets on our balance sheet which are neither available like cash or would yield us any revenue; I disagree with the principle. However, here we have a case where it yields us a partial revenue. On the other side of the balance sheet we do offset this by having a general reserve against active assets. Whether we should do something to add to that reserve in some way or another to reflect this partial situation might be something to be considered.

Mr. HARKNESS: Part of the green belt is used the same as any other government property for government purposes. The Uplands airport constitutes part of the green belt, and the new experimental farm constitutes part of the green belt. These properties are used just the same as any other government property here in the city which is not dealt with in this way. So, the value of those, at least, should be subtracted from the total cost factor, and probably the remainder written down to a more realistic figure in respect of its income producing ability.

Mr. BRYCE: My understanding of the way this is intended to work is that when some of the green belt land is put to government use—you mentioned the experimental farm and Uplands airport—the government is supposed to pay the commission for the land.

Mr. LONG: I am not sure about the airport. I do not think there is any airport property in this figure in respect of the green belt.

Mr. HARKNESS: It is all in the green belt.

Mr. LONG: I do not think that it has been acquired as green belt property. The experimental farm is an interesting case. It was charged to an appropriation one or two years ago in one large amount, and not as the individual properties were acquired. This land really is not yet in use, although I believe there was a contract let the other day for fencing. However, it is there and the minister at that time was faced with this entire expenditure of well

over a million or several millions; whereas if the money had been provided over the years, as the properties were acquired, it seems it would have been an easier method of financing.

Mr. HENDERSON: There is a further point which it seems to me hardly commends itself. It certainly would not commend itself to financial managements outside government. We tender the national capital commission substantial sums of money to undertake these expenditures and then, because they cannot earn enough income to pay the interest, parliament appropriates a sum of money and gives it to them to pay the interest. The Commission then turns around and pays the interest back to the government, and the government takes it into its revenue as a return on investment. That is not a practice which should commend itself. Of course, that is not necessarily just confined to the national capital commission. Where we encounter such practices, it is necessary as your auditors that we bring them to your attention.

Mr. VALADE: In this regard is the national capital commission considered to be a profit-making organization?

Mr. HENDERSON: As Mr. Long explained, the advances are carried as an investment and the interest of which he speaks is one of the returns from that investment.

Mr. VALADE: In respect of the purchase of land, I am wondering whether in respect of the national capital commission it is government policy to acquire the land by expropriation or negotiation? This seems to be the first crown corporation to acquire land for future use for government purposes.

Mr. BRYCE: It does acquire a good deal of land which it is the intention of the government to put to use in future years, such as LeBreton flats. As I recall it, the commission has expropriated the whole of that land and it will be cleared as time goes on. This land is to be used largely by the Department of Public Works for building purposes and to some extent by the commission itself for parkways and park purposes.

Mr. VALADE: There is an appropriation here in the amount of \$35 million for acquiring property. I believe the commission has to pay interest on this \$35 million. Does it pay interest when it purchases the land, or is this interest paid on the total sum which is not being used?

The CHAIRMAN: This is in respect of the second paragraph in item 66.

Mr. BRYCE: We lend the commission the money to buy the land.

Mr. VALADE: Even if it is not used.

Mr. BRYCE: They are charged interest on those loans. They are expected to lease those lands for the most they can get out of them, and that goes to pay the interest on the loans.

Mr. VALADE: In another paragraph I see that these lands in some ways are not worth managing. I am looking at the French report and am translating it into English—"Those farms are not susceptible to bringing in revenue".

Mr. HENDERSON: In the second paragraph on page 23, the fact is recorded that interest payments by the commission amounted to \$1,500,000 of which only \$200,000 came from rentals and interest on bank deposits. The difference, or \$1,300,000, was provided by an appropriation from parliament. That is my point.

Mr. McMILLAN: Mr. Bryce, you said these lands were not limited to farm lands because these lands could be developed with buildings.

Mr. BRYCE: Yes, sir. For example, the Northern Electric laboratory out in the west of the city, as I recall it, is in the green belt. The land can be used. The limitations are in respect of the density of population and various other aspects. It need not be restricted to farm land.



Mr. CROUSE: In this case case was the land sold to Northern Electric?

Mr. BRYCE: I am not sure in that particular instance.

Mr. HARKNESS: None of this land is sold; it is given on a long term lease.

Mr. BRYCE: I am not sure about this case. That land was being acquired about the time the green belt was being acquired and it may be that it was sold to them; but I believed the policy in the last few years has been not to sell but rather to lease green belt lands.

Mr. FANE: What use is made of the farm land which is bought and which becomes a part of the green belt? What use is made of the land and the houses thereon? Do the people who owned it when it was sold just get out, or what?

Mr. BRYCE: It would be better to ask the national capital commission about that. My recollection is that the policy in respect of this farm land is that it still is being leased as farm land and in many cases leased back to its former owner.

Mr. FANE: These people have been paid for the land, I presume, and they rent it back?

Mr. BRYCE: Yes.

Mr. NOWLAN: I have some comments with regard to the advisability of buying the land immediately which is required for the purpose of future holdings. What would Mr. Bryce's comment be in respect of the advisability of one policy as against the other?

Mr. BRYCE: I would like to study that first. I know we have had considerable discussion over the years in respect of what is the best way to acquire these properties. It has been a matter of considerable discussion.

Mr. NOWLAN: Does your experience with the green belt not suggest to you that where you start to acquire property piecemeal and once the government starts to show an interest, buyers bring the price up and eventually it costs millions of dollars more than it would had you taken it in one fell swoop; would that suggest the advisability of buying property in advance, even though there is no immediate use, in order to save future costs?

Mr. BRYCE: That would be my conclusion. You will note, in respect of acquiring the LeBreton flats, this land was secured as you described it "in one fell swoop".

Mr. VALADE: The government has the power to expropriate or obtain the land by negotiation?

Mr. BRYCE: Yes. That power was put into the National Capital Act at the time it was revised some half a dozen years ago. It is used more or less as a normal practice. I believe the earlier Federal District Commission Act required that the government endeavour to negotiate before expropriating, but the experience with that was it led to a great deal of difficulty of the kind Mr. Nowlan described. The consequence is that the more recent practice has been to expropriate en bloc, and then negotiate settlements, or if negotiation fails to produce a fair settlement, the matter goes to the exchequer court.

Mr. RYAN: I suppose, Mr. Bryce, that the government is continuing to expropriate green belt land?

Mr. BRYCE: I think the expropriations pretty well are completed, but not all the settlements.

Mr. RYAN: How long do you anticipate it will be before the government has taken over these lands they have not already acquired for green belt purposes and developed them?

Mr. BRYCE: I would hesitate to give an opinion. I am not close enough to the national capital operation now.

Mr. RYAN: Have you any rough idea?

Mr. BRYCE: I know that when the green belt was decided upon and the policy put in hand, it was thought of as quite a long term proposition which would go on for 50 or 100 years; it would take some time to get the uses of the land within the limits which were thought to be proper within the terms of the planning of the national capital; that is, that it would take many years before the land was put to the most valuable uses subject to those limitations.

Mr. RYAN: Then it seems there is some valid reason for the criticism of the Auditor General, if it is such a long range project.

Mr. BRYCE: There is no doubt that these properties which we have taken on our book as an asset—although they have a tremendous sale value if we are prepared to reverse our policy—yield only a small fraction, about two fifteenths, of the revenue necessary to pay the interest on the loan. I hope that will increase soon.

Mr. RYAN: We have a \$30 million investment plus interest to be paid on it, with a likelihood of very little revenue coming in to offset the interest.

Mr. BRYCE: Yes.

Mr. RYAN: This is a bit of a millstone.

Mr. BRYCE: There is a net burden here which parliament is asked to vote year after year.

Mr. HARKNESS: There was a joint committee of the Senate and the House of Commons some years ago which sat for two or three years and heard an enormous amount of evidence. It then recommended that this green belt property be bought and that powers of expropriation be given so that it could be secured. All of this really has arisen from the decisions made at that time; that is, adoption of the recommendations, in large, of the committee by the government. At that time it was envisaged that a good deal of this green belt property would remain more or less indefinitely in farming. Part of the plan was that some of this land never would be changed from farm land, so that there always would be this green area between the satellite communities outside the green belt which it was felt would develop and which are already developing.

The CHAIRMAN: Since we have two more items to discuss, I believe we have had a very useful discussion on this item even though we have moved slightly outside the ambit of the subject.

Mr. HARKNESS: I think this has reference to the subject, and I agree with Mr. Henderson that the farm land should, at least for the purpose of paying interest on it, be written down to what its rural value is rather than the cost paid for it. What was paid for it was not on the basis of what it would produce as farm land. A great deal more had to be paid for it because of the increase in the value of the property immediately adjacent to Ottawa.

The CHAIRMAN: Thank you, Mr. Harkness.

We will move on to item 67, deletion of debts due to the crown.

Mr. BRYCE: I may say that I agree entirely with the views of the audit office as expressed in the second paragraph on page 24. I am informed that these two items, to which the Auditor General refers, and which total some \$6,000, were included in a dollar vote by mistake. It was not realized at the time when this vote was made up that these items were included as assets in our accounts. In fact, the Comptroller of the Treasury in recording the transactions for the year has treated these items as expenditures and charged them against expenditures under the authority of this dollar vote, so that I am informed there has been no departure from the proper principles, although the estimate was for a nominal item where it should have included the amount which is noted there.

We do not differ at all from the views of the audit office.

With reference to the legalities, the solicitor of the treasury is of the opinion that the vote authorizes the action which was taken by the Comptroller of the Treasury in charging the full amount of these other accounts, because they were shown as assets on the books.

The CHAIRMAN: Thank you, Mr. Bryce. That seems to dispose of this problem, unless there are any questions on it.

The last item in which Mr. Bryce is interested is item 68, indirect compensation to chartered banks.

Mr. BRYCE: I do not wish to quarrel at all with the account of the facts as given by the Auditor General in respect of this item. I might be allowed to add, perhaps, that up until the year 1956 the government did not get interest on its deposits with banks. During the year 1956 I find that the Minister of Finance arranged to hold some of the government's cash balances in the form of time deposits for a specified number of months and negotiated with the banks to get interest on those time deposits.

At the beginning of 1957 the arrangement to which Mr. Henderson refers in his note was commenced. In view of this arrangement, which was worked out by agreement with the banks, the government receives interest on the balance held by the banks over and above an agreed level. That level, which is \$100 million in all—that is for all the banks taken together—is not a level which we undertake to maintain as minimum balances with the banks, but is a level above which they agreed to pay us interest at the rates specified. This arrangement helps us in our cash management and helps the Banks of Canada somewhat in the management of monetary affairs, while benefiting the crown by enabling it to earn quite substantial amounts of interest on those balances.

If we were going to try to earn interest on these funds without getting it from the bank, what it would require is that we would have to take the money out of the banks, invest it in securities, then sell the securities, or have them run out at the appropriate time, so that we can redeposit the money with the banks to meet our cheques as required. Alternatively, instead of earning interest we could save interest by borrowing more frequently in smaller amounts to fit into the curve of our requirements during the year. However, naturally it becomes more economical and more convenient to all of us concerned with these borrowing operations if they are in fairly substantial amounts. I am afraid we are having to borrow all too often these days. As I say, it facilitates our cash management to maintain substantial balances with the banks and obtain the interest on them.

As is noted here, the interest we get is nine tenths of the rate we would get by not issuing treasury bills.

This, then, is the purpose of the arrangement. The question is does it offend in principle against the provisions of section 93 (1) of the Bank Act? I can see that one could draw an implication that by not receiving interest on the first \$100 million we are thereby recognizing, so to speak, that the banks perform a service, and the implication might be taken that we are paying them for that service by not getting interest on that first \$100 million.

By law the banks are required to pass our cheques without remuneration; there is no doubt about that. On the other hand, the law does not impose upon the banks any obligation to pay us interest on our deposits. We have been able to get this interest only by making agreements with the banks. These agreements have been negotiated to our advantage and, we think because the banks went into this, to their advantage; these, therefore, are mutually advantageous agreements.

Nowadays the banks do not feel that the arrangement is wholly satisfactory. I do not think it necessary to do more than quote what they have said to the royal commission on banking in this regard. They submitted a



large brief to the royal commission on banking and finance which has been reprinted this year as a supplement to the Journal of the Canadian Bankers' Association.

If I might be permitted to read paragraphs 172 and 173 from this brief:

172. While remuneration for some special services is paid on a per-item service charge basis, free balances are maintained by the government and to some extent these recompense the banks for the heavy routine cheque and deposit handling functions. The question of the adequacy of remuneration for services rendered the government is a matter of continuing concern to the banks. As outlined above, while the banks pay interest on weekly balances in excess of \$100 million, the government is under no obligation to keep any free balances with the banks. In spite of repeated requests compensation has not been put on a properly defined basis and it is now considered very inadequate in relation to the sharp rise that has taken place in the volume of government business.

173. Under section 93 (1) of the Bank Act, the banks have been prevented from making any charge in respect of cheques or other instruments drawn on or payable to the government, and the government has not agreed to provide adequate compensation. Indeed it may be said that this forms a special burden not encountered by other industries in doing business with the federal government. As pointed out in the paragraph previously quoted from the Macmillan Commission of 1933, this, in effect, means that charges to other customers of the banks must be sufficient to offset the expenses incurred in handling federal government entries.

If members of the committee wish, perhaps the whole portion of this brief could be reprinted as an appendix to today's Minutes of Proceedings and Evidence. I have read you the two relevant paragraphs.

The CHAIRMAN: You say there are other paragraphs which you think are pertinent?

Mr. BRYCE: They give the background.

The CHAIRMAN: I would ask the committee whether it is the wish that this be printed as an appendix to today's proceedings?

Agreed.

Mr. BRYCE: I will leave this. I cite it, sir, simply to indicate the agreement we made with the banks is not one which they feel is altogether beneficial to them. They felt that it should be more to their advantage. I have no doubt that when the revision of the Bank Act comes up, this well might be considered at that time; that may be a more effective time to consider it when parliament has the revision of the Bank Act before it. However, I thought it appropriate to make this explanation and to cite the view which the banks have in respect of the arrangement.

The CHAIRMAN: Thank you. Are there any questions?

Mr. REGAN: How was the sum of \$100 million arrived at as the amount that is interest free?

Mr. BRYCE: That was just a matter of negotiation with the banks. As you can see, it was a round sum figure which came out of the negotiations between the deputy minister of finance and the banks in 1957.

Mr. REGAN: How far above the \$100 million do the deposits usually run?

Mr. BRYCE: They vary quite substantially. The figures alter a great deal from week to week. They are published, of course, in various places. Perhaps the most convenient place to find them weekly is in the Bank of Canada statistics.

The Auditor General has cited a number of dates with regard to the balances in paragraph 2 under item 68 here. I have here the actual figures for 1962. They vary all the way from a low of \$66 million to a high of \$906 million, or something of that nature; normally they are low in October before the savings bond sales are received and low in April when we are paying our yearend accounts and bills.

Mr. REGAN: Would you say that on the whole the present formula results in interest being paid on three-quarters of the money on deposit, or two-thirds?

Mr. BRYCE: Just glancing at these figures, it looks to me as though interest would be paid on two-thirds, three-quarters, or maybe four-fifths; we cannot figure that out.

Mr. REGAN: I just wanted a general idea. If the money was not kept on deposit at the bank in this manner, what other system would you follow?

Mr. BRYCE: As I indicated earlier, we would endeavour to keep balances down to much smaller figures. In order to do that we would take the money which is with the banks and invest it in our own short term securities of one kind or another, or alternatively we would change our borrowings so that we would borrow smaller amounts more often.

Mr. REGAN: Do you feel that this would result in a very large difference in the compensation which is paid to the government on its investment?

Mr. BRYCE: It would mean we would reduce our interest, and in effect we would reduce the net interest we pay on government securities, because by buying them in and reselling them we would get the interest for a time. If one is trying to think of the impact it would have on the banks, it is a complicated matter which would have to be analysed carefully. If the government held more of its own securities, or if you had fewer short term securities, that would have some impact on what government securities the banks would hold. It would also have some impact on how the Bank of Canada would operate. So, I think it can be said if we did not keep these substantial balances with the banks we would pay less interest and they would get less interest. Just how it would affect the policy on balance, would require us to outline a specific plan.

Mr. REGAN: You do not think the withdrawal of these deposits from the chartered banks would result in a serious difficulty for the banks? They are not that significant in amount; are they?

Mr. BRYCE: They are significant in amount. They are sufficiently significant that the Bank of Canada in publishing its statistics in respect of bank deposits publishes one series with the government deposits included and another with them excluded. So, the difference in magnitude in these deposits can be seen.

Mr. REGAN: The spreading out of these deposits according to a formula regarding division among the various chartered banks was not as a result of any feeling that this is necessary to keep the banks prosperous; was it?

Mr. BRYCE: No. It was just to be fair with them.

Mr. McMILLAN: Under the arrangement a bank makes a deposit of \$20 million this month on which no interest is paid, and in the following month they pay interest on part of that.

Mr. BRYCE: That is right.

Mr. REGAN: What I am perhaps looking at at the moment, Mr. Bryce, is this question. This is something—whether the act says it should be or not—which is indirect compensation being paid to the banks at the present time for handling these cheques, which is recognized in the brief from the banks which refers to it as compensation for handling cheques. In one of the paragraphs you

read they refer to this as being inadequate compensation. Therefore, they accept that there is compensation. Perhaps the other day I suggested there might be some quarrel with that, but they are doing a great deal of work in handling these cheques, and perhaps the act should be changed, and perhaps they should receive some compensation. Why should the government not negotiate with the various banks, have its cheques handled through many, and have its deposits in the one chartered bank with which it is able to make the best deal.

Mr. BRYCE: The government's operations are so enormous that if it kept its deposits at one bank and did all its business through one bank, two things would have to be taken into account. First, that the volume of business is large, and the bank which got the government's business would be substantially affected. If it were done on a competitive basis, you might introduce a new element. Here I am speaking quickly and would not offer this as a carefully considered position. It would also introduce a substantial and new complication into the monetary management because of the shift in deposits between the Bank of Canada and the chartered banks, and the deposit of receipts from bond issues. These things would have to be taken into account by the Bank of Canada in managing the country's monetary supply. If we did our business only with one bank, they would have to take into account the transfers between it and other banks and the effect of that on the banking situation as a whole.

Mr. REGAN: You agree that the possibility of this occurring is a sobering thought to the banking industry at the time they negotiate any compromise in the future?

Mr. BRYCE: It might be. I have not ascertained that.

Mr. McMILLAN: No one bank would have sufficient distribution of offices to deal with it; would it?

Mr. BRYCE: I think we have to distinguish between the cashing of government cheques and the actual handling of government balances. I think that all banks would have to be prepared to cash government cheques because the public wants to be able to take the government cheques to the bank they use, and it is that which gives rise to some of the problems for the banks.

The CHAIRMAN: Do you have any comment, Mr. Henderson?

Mr. HENDERSON: I believe you appreciate that it was not my intention in any way to criticize the Department of Finance in this area. In fact, I think when they set this arrangement up in 1957, they did a good piece of work. I gather, however, that you feel as I do, that this present arrangement does provide the banks with indirect compensation and in fact, as Mr. Regan has pointed out, a reference in their own brief admits that as they are not having to pay interest on the \$100 million this does in fact provide them with indirect compensation, although not enough by their standards.

The CHAIRMAN: Gentlemen, before we adjourn, there is one brief point in respect of an item dealing with the federal judges. Certain information was requested. Mr. Henderson has that information. Do you approve of this being given to me and I will see that it is placed before our meeting when we meet in camera for discussion?

Agreed.

The CHAIRMAN: Thank you very much, Mr. Bryce, having in mind the comparatively brief time you have occupied the office, for coming here and dealing with these matters which I think you have done to the satisfaction of all members.

Gentlemen, the meeting is adjourned. In fact, I think this is the last meeting.



I would like to express my thanks to all members who have been so patient and have been so astute in their attendance. Particularly I would like to express our thanks to Mr. Henderson and his staff who have been sitting here with us.

We will meet on Monday to deal with our report.

## APPENDIX

(Extracts from submission to the Royal Commission on Banking and Finance by the Canadian Bankers' Association).

## Government of Canada Deposits

170. The deposits of the Federal Government are allocated between the banks on an agreed ratio according to each bank's share of the unrecovered costs of handling Federal Government business. Following an agreement reached in 1953 the banks have paid interest to the Government on some portion of these deposits. The present rate, negotiated in 1959, provides for interest at a rate of 10 per cent below the average rate on accepted tenders at the weekly auction of three-month Treasury bills. This is payable on the amount by which the Government's minimum weekly balance at all banks exceeds \$100 million. It should be pointed out that the Government accepts no obligation to keep a minimum of \$100 million or more on deposit.

171. Some idea of the scope and growth of Government business handled by the banks is given by the number of Government cheques and other instruments cashed (excluding those of the Unemployment Insurance Commission) in the years 1951 and 1961. In 1951 some 36.8 million cheques were negotiated; in 1961 this figure had risen to 62.1 million, almost nine per cent of all cheques handled by banks in Canada.

172. While remuneration for some special services is paid on a per-item service charge basis, free balances are maintained by the Government and to some extent these recompense the banks for the heavy routine cheque and deposit handling functions. The question of the adequacy of remuneration for services rendered the Government is a matter of continuing concern to the banks. As outlined above, while the banks pay interest on weekly balances in excess of \$100 million, the Government is under no obligation to keep any free balances with the banks. In spite of repeated requests compensation has not been put on a properly defined basis and it is now considered very inadequate in relation to the sharp rise that has taken place in the volume of government business.

173. Under Section 93(1) of the Bank Act, the banks have been prevented from making any charge in respect of cheques or other instruments drawn on or payable to the Government, and the Government has not agreed to provide adequate compensation. Indeed it may be said that this forms a special burden not encountered by other industries in doing business with the Federal Government. As pointed out in the paragraph previously quoted from the Macmillan Commission of 1933, this, in effect, means that charges to other customers of the banks must be sufficient to offset the expenses incurred in handling Federal Government entries.

174. A section, similar to s. 93(1) of the present Act first appeared in the Bank Act of 1890. That the relation of the Government to the banks has vastly changed since then is illustrated in the following table.

TABLE VI

## GROWTH OF FEDERAL GOVERNMENT IN RELATION TO THE BANKS

	1890	1961	1961 ÷ 1890
	(\$ Millions)		(times)
Canadian Federal Govt. Budgetary Expenditures	40	5,958	149
Gross National Product .....	803	36,844	46
Canadian Dollar Deposits at Chartered Banks ..	129	12,804	99
Federal Government Bank Deposits .....	3	257	86

## SOURCES:

- 1 Government Expenditures—Department of Finance, *Public Accounts of Canada*, for the fiscal year ended March 31, 1961.
- 2 Gross National Product for 1890 estimated by O. J. Firestone *Canada's Economic Development 1867-1953*; for 1961, *D.B.S. National Accounts*.
- 3 Federal Government Bank deposits—*Canada Gazette*.

175. Government budgetary expenditures in the 1961 fiscal year were almost 150 times the 1890 figure, a much faster growth than either Government bank deposits or G.N.P. Even the foregoing is not a full measure of the increased burden on the banks, however, because there have come into existence in the last 30 years Government policies involving various types of welfare payments effected by means of millions of small cheques or other instruments for such purposes as Unemployment Insurance benefits, Family Allowances, Old Age Pensions, and so on. As previously mentioned, the number of such items has almost doubled in the last decade alone. The physical burden of these millions of payments is both heavy and costly, and could hardly have been envisaged when the privilege of exemption from charges was first embodied in the Bank Act.

176. The chartered banks make a very substantial contribution to Government revenues by keeping eight per cent of their Canadian dollar deposits in Bank of Canada notes or in interest-free balances with the bank. During 1961 such notes and deposits averaged \$983 million.

## Provincial Government Deposits

177. Provincial government deposits, unlike Federal deposits, have done no more than hold their own when compared with pre-war percentages. These deposit accounts operate in a similar manner to corporate current accounts but are separated on the banks' balance sheets for statistical purposes.















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